Contents

Governance

The Governance section, introduced by our Chairman, contains the Corporate Governance Report and details about the activities of the board and its committees during the year.

It also contains the Directors' Report and the statement on responsibilities of directors.

Governance

Board of Directors

From left to right

Tim Stevenson, OBE – Chairman
Appointed to board: March 2011

Experience
Tim was appointed Chairman in July 2011. He was Chairman of The Morgan Crucible Company plc from December 2006 to July 2012 and Chairman of Travis Perkins plc from November 2001 to May 2010. Tim has also sat on a number of other boards including National Express plc, Partnerships UK and Tribal PLC and was Chief Executive at Burmah Castrol plc from 1998 to 2000. He is a qualified barrister and is Lord Lieutenant of Oxfordshire.

Other current appointments
Director of the Emmott Foundation Limited.

Committees
Remuneration, Nomination (Chairman)

International experience
Spain, UK

Sector experience
Chemicals, Manufacturing, Oil and Gas, Retail

Robert MacLeod – Chief Executive
Appointed to board: June 2009

Experience
Robert was appointed Chief Executive in June 2014. He joined Johnson Matthey as Group Finance Director in 2009. Previously he was Group Finance Director of WS Atkins plc and a Non-Executive Director at Aggreko plc. He is a Chartered Accountant with a degree in Chemical Engineering.

Other current appointments
Non-Executive Director at RELX PLC, RELX NV and RELX Group plc.

International experience
UK, US

Sector experience
Chemicals, Oil and Gas, Professional Services

Anna Manz – Chief Financial Officer
Appointed to board: October 2016

Experience
Anna joined Johnson Matthey as Chief Financial Officer in October 2016. Previously she was Group Strategy Director and a member of the Executive Committee at Diageo plc. During 17 years at Diageo, Anna held a series of senior roles, including Finance Director Spirits North America, Group Treasurer and Finance Director Asia Pacific. Anna is a qualified management accountant with a degree in Chemistry.

Other current appointments
Non-Executive Director at ITV plc.

International experience
China, India, Ireland, Kenya, Korea, Nigeria, Singapore, UK, US

Sector experience
Manufacturing, Media

Patrick Thomas – Chairman Designate
To be appointed to the board: June 2018

Patrick Thomas will join the board as Chairman Designate on 1st June 2018 and will succeed Tim Stevenson as Chairman at the close of the 2018 Annual General Meeting on 26th July 2018.

Experience
Between 2015 and May 2018 Patrick was Chief Executive Officer and Chairman of the Board of Management of Covestro AG. Between 2007 and 2015 he was Chief Executive Officer of its predecessor, Bayer MaterialScience, prior to its demerger from Bayer AG.

Other Current Appointments
Non-Executive Director of Akzo Nobel N.V.

Committees
Remuneration, Nomination (Chairman Designate)

International experience
Belgium, Germany, UK

Sector experience
Chemicals, Manufacturing, Oil and Gas, Pharmaceuticals, Technology

Alan Ferguson – Senior Independent Director
Appointed to board: January 2011

Experience
Alan was appointed a Non-Executive Director in January 2011 and as Senior Independent Director in July 2014. Previously he was Chief Financial Officer and a Director of Lonmin Plc. Prior to this he was Group Finance Director of The BOC Group. Before joining BOC, he worked for Inchcape plc for 22 years and was Group Finance Director from 1999 until 2005. He is a Chartered Accountant and sits on the Business Policy Panel of the Institute of Chartered Accountants of Scotland.

Other current appointments
Non-Executive Director and Chairman of the Audit Committee at Croda International Plc and Marshall Motor Holdings plc. He is also Senior Independent Director at both these companies.

Committees
Audit (Chairman), Remuneration, Nomination

International experience
South Africa, UK

Sector experience
Automotive, Chemicals, Metals and Mining

Odile Desforges – Non-Executive Director
Appointed to board: July 2013

Experience
Odile's automotive industry experience began with the French Government's Transport Research Institute and developed with Renault SA and AB Volvo. She has held senior positions in purchasing, product planning, development and engineering, including as Chairman and Chief Executive Officer of the Renault-Nissan Purchasing Organization (RNPO) and most recently, until 2012, as Executive Vice President, Engineering and Quality at Renault. She was appointed a Knight of the French Legion of Honour in 2009.

Other current appointments
Non-Executive Director of Safran SA, Dassault Systèmes, Imerys and Faurecia.

Committees
Audit, Remuneration, Nomination

International experience
France, Japan, Sweden, UK

Sector experience
Aerospace, Automotive, Defence, Manufacturing, Technology

From left to right

Jane Griffiths – Non-Executive Director
Appointed to board: January 2017

Experience
Jane is currently Global Head of Actelion a Janssen pharmaceutical company of Johnson & Johnson (J&J). Since joining J&J in 1982 Jane's roles have included international and affiliate strategic marketing, sales management, product management, general management and clinical research. Jane is Director and Chair of the J&J Corporate Citizenship Trust in EMEA, a sponsor of the J&J Women's Leadership Initiative.

Other current appointments
Director of Johnson & Johnson Innovation Limited.

Committees
Audit, Remuneration, Nomination

International experience
Africa, Middle East, UK

Sector experience
Pharmaceuticals

John O'Higgins – Non-Executive Director
Appointed to board: November 2017

Experience
John is currently Chief Executive of Spectris plc, a position he has held since January 2006. Prior to this he worked for Honeywell in a number of management roles, including as president of automation and control solutions, Asia Pacific. He began his career as a design engineer at Daimler-Benz in Stuttgart. Between 2010 and 2015, John was a Non-Executive Director of Exide Technologies, Inc.

Other current appointments
Trustee of The Wincott Foundation.

Committees
Audit, Remuneration, Nomination

International experience
Belgium, China, Germany, UK, US

Sector experience
Automotive, Energy, Manufacturing, Oil and Gas, Technology

Simon Farrant – General Counsel and Company Secretary
Joined Johnson Matthey: 1994

Experience
Appointed Company Secretary in 1999 and Group Legal Director in 2007. He is a Solicitor and Attorney and Counselor-at-Law (State of New York).

Chris Mottershead – Non-Executive Director
Appointed to board: January 2015

Experience
Chris is Senior Vice President of Quality, Strategy and Innovation at King's College London and Director of King's College London Business Limited. Prior to joining King's College in 2009, Chris had a 30 year career at BP, most recently as Global Advisor on Energy Security and Climate Change. Before this, he was Technology Vice President for BP's Global Gas, Power and Renewables businesses. He is a Chartered Engineer and Fellow of the Royal Society of Arts.

Other current appointments
Non-Executive Director of The Carbon Trust and Carbon Trust Investments Limited.

Committees
Audit, Remuneration (Chairman), Nomination

International experience
UK, US

Sector experience
Energy, Oil and Gas

John Walker – Sector Chief Executive, Clean Air
Appointed to board: October 2013

Experience
John joined Johnson Matthey in 1984 and was appointed Division Director, Emission Control Technologies in 2009 after holding a series of positions within the division in the US, Asia and Europe. He was appointed Executive Director, Emission Control Technologies Division in October 2013 (division subsequently renamed Clean Air Sector in April 2017).

International experience
Australia, China, France, Germany, India, Japan, Malaysia, UK, US

Sector experience
Automotive, Chemicals

At the date of approval of this annual report, the Board of Directors of Johnson Matthey is as detailed here.

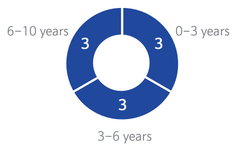
Colin Matthews retired as a Non-Executive Director with effect from 15th November 2017.

Board diversity

Gender

Male	Female
67%	33%

Board tenure



Letter from the Chairman

Tim Stevenson
Chairman

This section of the annual report describes our corporate governance structures and processes and how they have been applied throughout the year ended 31st March 2018.

My role as Chairman

My most important role is to ensure that Johnson Matthey has a board which works effectively under my leadership. This is particularly important as the company continues to evolve and grow. I believe we have an effective board. We report on pages 94 to 95 on our board and committee review, which we conducted externally this year. Open and constructive evaluation is integral to our effectiveness.

Governance and strategy

During the year we have refined our strategy and business model, including organising our business into four sectors, driving further synergies for customers and our stakeholders. We have reviewed our governance arrangements and concluded these continue to be right for the company. They effectively support our strategy and will enable us to respond to any challenges we may face. For me, ensuring the right board dynamics is vital. I am pleased to say that we have strong contributions and challenge from all our directors in an open and constructive atmosphere. This is in large part created by having a board comprising directors with a broad range of skills, expertise and attributes. As Chairman, I lead the setting of the board's agenda and I pay considerable attention to ensuring we have a plan which allows for appropriate time to discuss all necessary items, particularly the development of strategy and the consideration of risk.

Risk management

Risk management is an important part of our wider discussion of strategy and our operating model. In this report, we aim to show how our strategy is underpinned by a robust risk management framework.

Stakeholders

The board recognises the importance of balancing the needs of our stakeholders with the long term strategic aims of our business. We ensure effective engagement with our stakeholders so as to ensure their views are understood and appropriately taken into account.

Culture

A key part of the board's role is to take effective steps in shaping and embedding a healthy corporate culture throughout our organisation. This is fundamental to being able to build sound governance behaviours and practices, all of which support the success of our company and its strategic objectives. The board recognises that it has a responsibility to act with integrity and lead by example to create our desired corporate culture.

Succession planning and diversity

Ensuring that the group employs a process of thoughtful, strategic and practical succession planning is a key role for the board in nurturing our culture, sustaining our operating model and delivering our strategy. The board itself needs to be refreshed over time, drawing on an appropriately diverse talent pool. We recognise the benefits of bringing greater diversity throughout the organisation and in the boardroom. We explain our approaches to this component of board effectiveness in this report.

The UK Corporate Governance Code

We are reporting against the UK Corporate Governance Code 2016 (the Code). We report on how we have applied the Code's main principles and complied with its relevant provisions. Except in one respect (which is explained on page 98), Johnson Matthey has complied with all relevant provisions throughout the year ended 31st March 2018 and from that date up to the date of approval of this annual report.

Looking forward

It has been a privilege to be Chairman of Johnson Matthey for the last seven years and I am immensely proud of what we have achieved. It is a great company with excellent people and a robust strategy. I would like to thank our customers, our employees and our shareholders for their support. I wish the business every success for the future.

Tim Stevenson
Chairman

Corporate Governance Report

Introduction

Our Board of Directors is responsible to our shareholders for ensuring the sound running of the company. This can only be achieved if the board is supported by appropriate and well managed governance processes to support our strategy, ensure a positive culture across the group and manage risks and uncertainties. The key elements of these are described in this Corporate Governance Report.

UK Corporate Governance Code

The UK Corporate Governance Code 2016 (the Code) contains broad principles and specific provisions which set out standards of good practice in relation to **leadership, effectiveness, remuneration, accountability and relations with shareholders.** This Corporate Governance Report is structured to report against the Code by reference to each of these key areas. Together with the Nomination Committee Report, the Audit Committee Report and the Remuneration Report, it describes how we have complied with the relevant provisions of the Code and applied its main principles during the year.

Getting to know the business

In order for our directors, particularly our Non-Executive Directors, to effectively discharge their responsibilities, it is critical that they understand our businesses.

Throughout the year we review the delivery against strategy of our sectors. These sessions are attended by the relevant Sector Chief Executive and, where appropriate, other sectoral senior management. They give the board an excellent opportunity to hear about, discuss and challenge the strategic direction of our business. This was particularly important during the year as we refreshed our strategy and moved to a group structure aligned to our global priorities.

The board also reviews our key functional areas. These reviews are attended by the relevant functional head and enable the board to assess the strength of these functions in their ability to support delivery of the group's strategic objectives.

The board regards it as vital to make space in the timetable to learn more about our businesses through site visits, presentations or other proposals brought to the board. During the course of the year the board engaged in significant discussion on growth within our businesses, to ensure the market opportunities were fully understood as investments to build capacity were considered. Periodically, we hold business 'teach-ins' for our board. These are separate from board meetings and are attended by a range of managers from the relevant business. They are designed to give the board a more in depth insight into our businesses and their customers than is possible during board meetings. This deeper understanding enhances the Non-Executive Directors' ability to challenge, debate and contribute to sectoral strategy at board meetings. During the year a number of board members also attended a training session on process safety, led by the Group EHS Director.

While the majority of our board meetings are held at our City office in London, the board holds two board meetings each year at operational sites. The board always tours the site and management present to them on the business, its challenges and successes. These visits enable the board to see our operations on the ground and to meet the teams that are making them successful. They are a useful opportunity for the board to hear about customers, business issues, risks and strategy as well as environment, health and safety developments and the business' sustainability and manufacturing efforts.

During 2017/18, board meetings were held at Sonning, UK (April 2017) and in Redwitz, Germany (October 2017). At Sonning, the board visited Johnson Matthey's Technology Centre to learn more about research and development projects. At Redwitz, the board toured our Clean Air manufacturing site.

Our Non-Executive Directors also undertake visits to our sites independent of the Executive Directors, either individually or collectively, to further enhance their knowledge and understanding, meeting with management and other employees. During the year our Non-Executive Directors visited our Efficient Natural Resources manufacturing facilities at Emmerich and Oberhausen in Germany.

Tim Stevenson and some of our Non-Executive Directors also attended for part of the 2017 leadership conference, which gave them an opportunity to get a feel for the group's culture, hear more about the group's priorities in action and meet employees from across all our sectors and functions.

All of the above activities enable the Non-Executive Directors to continue to develop and refresh their knowledge and understanding of our businesses, the markets in which we operate and our key stakeholders. They provide an opportunity to meet with and hear the views of employees. Through these, the board develops a sound and balanced insight into the group which supports it in its role to provide entrepreneurial leadership and set strategy.

Leadership

Governance framework

The group's principal decision making body is the board. It has responsibility for setting the group's strategic direction and for ensuring that the group manages risk effectively. The board is accountable to shareholders for the group's financial and operational performance. It is supported by three principal committees: the Nomination Committee, the Audit Committee and the Remuneration Committee.

Our governance framework at 31st March 2018

Chairman

Tim Stevenson

Key responsibilities

- Leads the board.
- Ensures an effective board, including contribution and challenge from the directors.
- Ensures that Johnson Matthey maintains effective communications with its shareholders.

Independent Non-Executive Directors

Odile Desforges, Jane Griffiths, Chris Mottershead, Alan Ferguson, John O'Higgins

Key responsibilities

- Constructively challenge the Executive Directors in all areas.
- Scrutinise management's performance.
- Help develop proposals on strategy.
- Satisfy themselves on the integrity of financial information and on the effectiveness of financial controls and risk management systems.
- Determine appropriate level of remuneration for Executive Directors.

Senior Independent Director

Alan Ferguson

Key responsibilities

- Provides a sounding board for the Chairman.
- Acts, if necessary, as a focal point and intermediary for the other directors.
- Ensures that any key issues not addressed by the Chairman or the executive management are taken up.
- Available to shareholders should they have concerns.
- Leads the annual appraisal of the Chairman's performance.
- Ensures an orderly succession process for succession to the chairmanship of the company.

Board

Membership

Nine directors (Chairman, three Executive Directors and five independent Non-Executive Directors).

Role

- Provides entrepreneurial leadership of the company and direction for management.
- Has collective responsibility and accountability to shareholders for the long term success of the group.
- Reviews the performance of management and the operating and financial performance of the group.
- Sets strategy.
- Determines risk appetite.
- Ensures that appropriate risk management and internal control systems are in place.
- Sets the company's values and standards.
- Ensures good governance and promotes good behaviour.

Chief Executive

Robert MacLeod

Key responsibilities

- Has day to day responsibility for running the group's operations.
- Recommends to the board and implements group strategy.
- Applies group policies.
- Promotes the company's culture and standards.

Company Secretary

Simon Farrant

Key responsibilities

- Acts as secretary to the board and its committees.
- Together with the Chairman, keeps the efficacy of the company's and the board's governance processes under review.
- Has responsibility for compliance with board procedures.
- Provides advice on corporate governance issues.

Executive Directors

Robert MacLeod

Anna Manz

John Walker

Key responsibilities

- Have specific executive responsibilities.
- Discharge duties in respect of the group as a whole.

Responsibility for implementing operational decisions and the day to day management of the business is delegated to the Chief Executive who is supported by the Group Management Committee (GMC) as outlined on page 13. There is a clear division of responsibilities between the running of the board and the executive responsibility for running the business. The board has identified certain matters which only it can approve. These are set out in a schedule of matters reserved for the board. The Chairman's and Chief Executive's roles are separate and this division of responsibilities is clearly established in a written statement within the corporate governance framework, which is available on our website.

The GMC is responsible for managing business performance, delivery of strategy and mitigating risks. It meets six times a year and most weeks for informal discussions on day to day matters. The GMC is supported by four sub-committees – the Environment, Health and Safety Leadership Committee, the OneJM Policy Committee, the Finance and Administration Committee, and the Legal Risk Committee.

matthey.com/corporate-governance

Audit Committee

Membership

Five independent Non-Executive Directors.

Chaired by Alan Ferguson.

Role

Assists the board in carrying out its oversight responsibilities in relation to financial reporting, internal controls and risk management and in maintaining an appropriate relationship with our external auditor, including recommending reappointment or a requirement to tender.

Nomination Committee

Membership

Five independent Non-Executive Directors and the group Chairman.

Chaired by Tim Stevenson.

Role

- Considers structure, size, composition and succession needs of the board.
- Oversees succession planning for senior executives.

Remuneration Committee

Membership

Five independent Non-Executive Directors and the group Chairman.

Chaired by Chris Mottershead.

Role

- Sets remuneration policy for Executive Directors and the Chairman and determines the application of that policy.
- Reviews and monitors the level and structure of remuneration for senior executives.

Disclosure Committee

Membership

The Chief Executive, Chief Financial Officer and the Company Secretary.

Chaired by Robert MacLeod.

Role

To identify and control inside information or information which could become inside information, and to determine how or when that information is disclosed in accordance with applicable legal and regulatory requirements.

Ethics Panel

Membership

The Company Secretary and three executive heads of functions.

Chaired by Simon Farrant.

Role

To oversee the concerns raised pursuant to the Speak up Policy, including the effective review and investigation of these concerns.

Group Management Committee

Membership

Chief Executive, Chief Financial Officer, Sector Chief Executives, Chief HR Officer, Chief Technology Officer, Chief Strategy and Corporate Development Officer and General Counsel and Company Secretary.

Role

Has responsibility for the executive management of the group's businesses. Recommends strategic and operating plans to the board.

Environment, Health and Safety (EHS) Leadership Committee

Chaired by John Walker.

Role

Has responsibility for assisting the company in discharging its EHS responsibilities and in creating a positive EHS culture across the group.

OneJM Policy Committee

Chaired by Simon Farrant.

Role

Has responsibility for setting a policy framework for the group, oversight and approval of Johnson Matthey group policies.

Finance and Administration Committee

Chaired by Anna Manz.

Role

Has responsibility for certain of the group's finance and corporate restructuring matters.

Legal Risk Committee

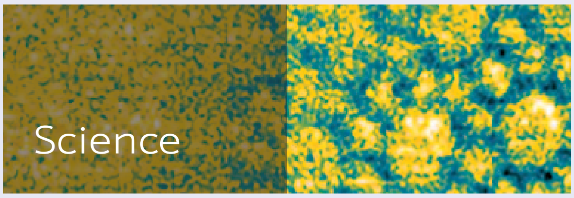
Chaired by Simon Farrant.

Role

Reviews contract and litigation risk for the group.

Principal board activities

During the year and up to the date of approval of this annual report, the board focused on a number of specific areas which are outlined in the following table.



Role of the board	Outcome
	Strategy
To set the company's strategic aims and to take responsibility for the long term success of the company.	• Reviewed and approved Efficient Natural Resources strategy. • Reviewed and approved Health strategy.
To approve major capital projects.	• Reviewed and approved Clean Air strategy including investments in Clean Air plants in Poland and China to expand capacity. • Reviewed and approved Battery Materials strategy including investing in manufacturing capacity, for ultra-high energy battery cathode materials.
	R&D
To ensure the long term success of the company.	• Reviewed innovation and endorsed the approach taken to grow and develop the research and development portfolio.

Role of the board	Outcome
	Efficiency
To ensure that the needs of our customers are integral to our strategy.	• Reviewed and approved proposals on our commercial excellence programme to capture a fair share of the value we create for customers.
	Financial
To ensure the long term success of the company.	• Reviewed and approved group budget and three year plan.
To maintain oversight of the group's financial performance.	• Approved full year results, half-yearly results and the annual report.
To establish transparent arrangements to apply corporate reporting, risk management and internal controls.	• Approved the group's going concern and viability statements. • Reviewed the group's tax strategy, including the implications of the US tax reform. • Reviewed the group's treasury strategy, including key policies.
To maintain an appropriate relationship with the auditors	• Approved the appointment of PricewaterhouseCoopers LLP as external auditor for the financial year commencing 1st April 2018 subject to shareholder approval at the 2018 Annual General Meeting (AGM). • Reviewed proposals on our brand refresh and our programme of delivery to support Johnson Matthey's 200th anniversary.

Role of the board	Outcome
	Operational
To supervise the management of the business.	• Reviewed progress on the development and implementation of groupwide business information systems. • Reviewed our cyber security arrangements. • Reviewed and approved proposals on our procurement excellence programme, including a saving target of £60 million over three years. • Agreed to close our Health manufacturing plant at Riverside, US.
	Risk
To determine the nature and extent of the principal risks and the group's risk appetite.	• Reviewed the board's responsibilities in relation to risk assessment and monitoring of risk management and internal control systems. • Reviewed principal risks and agreed mitigating actions, key assurance activities and risk appetite.
	Governance
To facilitate effective, entrepreneurial and prudent management of the business.	• Reviewed the key features of the proposed amendments to the UK Corporate Governance Code and established a working group to consider further proposals. • Reviewed the schedule of matters reserved for the board and committee terms of reference and approved a new corporate governance framework.

Role of the board	Outcome
	Culture
To establish the culture, values and ethics of the company.	• Reviewed and agreed the articulation of our company values and behaviours. • Received a legal, ethics and compliance and intellectual property risk update. • Reviewed EHS performance at each meeting and considered significant incidents, including management responses and actions and the outcome of safety audits.
	Leadership
To ensure the board is effective with an appropriate balance of skills, experience, independence and knowledge.	• Considered board succession and approved the appointments of John O'Higgins and Patrick Thomas. • Reviewed directors' conflicts of interest and Non-Executive Directors' independence.
To undertake a rigorous annual performance evaluation.	• Reviewed key findings of the board and committee performance evaluation and agreed key actions.
To ensure remuneration promotes the long term success of the company.	• Reviewed objectives for the Executive Directors and GMC members for 2018/19.

Pages 16 and 17: Our strategy

Our principal risks
Pages 76 to 81

Board meetings and attendance

Each year the board agrees an annual agenda plan. The board seeks to ensure there is sufficient time to discuss strategy so that the Non-Executive Directors have the opportunity to challenge and help develop strategy proposals.

During the year, our board met seven times. The attendance of members at board meetings during the year was as follows:

	Role	Date of appointment to board	Number of meetings eligible to attend	Number of meetings attended	% attended
Tim Stevenson	Chairman	29th March 2011[1]	7	6[2]	86%
Odile Desforges	Non-Executive Director	1st July 2013	7	7	100%
Alan Ferguson	Non-Executive Director	13th January 2011	7	7	100%
Jane Griffiths	Non-Executive Director	1st January 2017	7	7	100%
Robert MacLeod	Chief Executive	22nd June 2009[3]	7	7	100%
Anna Manz	Chief Financial Officer	17th October 2016	7	7	100%
Colin Matthews	Non-Executive Director	4th October 2012	5[4]	5	100%
Chris Mottershead	Non-Executive Director	27th January 2015	7	7	100%
John O'Higgins	Non-Executive Director	16th November 2017	2	2	100%
John Walker	Executive Director	9th October 2013	7	7	100%

1 Tim Stevenson was appointed Chairman on 19th July 2011.

2 Tim Stevenson was unable to attend one meeting due to illness. In his absence, Alan Ferguson, Senior Independent Director, chaired the board meeting. Tim Stevenson reviewed all meeting papers and shared his thoughts, comments and questions with Alan Ferguson, who raised these at the meeting.

3 Robert MacLeod was appointed Chief Executive on 5th June 2014.

4 Colin Matthews retired from the board on 15th November 2017.

Since the end of the year, the board has met twice and all board members attended both meetings.

The attendance of members at committee meetings in the year is set out in the Nomination Committee Report, the Audit Committee Report and the Remuneration Report (in respect of the Remuneration Committee) on pages 99, 104 and 122 respectively.

Individuals' attendance at board and board committee meetings is considered, as necessary, as part of the formal annual review of their performance.

During the year, board members also participated in three scheduled conference calls to give the Executive Directors the opportunity to update the Non-Executive Directors on key matters between board meetings.

Effectiveness

Our board's composition

As at 31st March 2018, our board comprised the Chairman, three Executive Directors and five independent Non-Executive Directors.

Our board believes that both it and its committees have the appropriate range and balance of skills, experience, knowledge and independence to enable them to carry out their duties and responsibilities effectively. The size and composition of the board is regularly reviewed by the Nomination Committee.

The board, through the Nomination Committee, follows a formal, rigorous and transparent procedure to select and appoint new board directors.

Independence of the Non-Executive Directors

The board reviews Non-Executive Director independence annually, most recently at its meeting in May 2018. The board considers all relevant relationships and circumstances, including those defined in the Code that could affect, or appear to affect, their independent judgement.

Each of our Non-Executive Directors is determined by the board to be independent in character and judgement.

Information on the company's procedures for authorising potential conflicts of interest is set out under 'Directors' conflicts of interest' on page 94.

Succession planning

Effective succession planning is a fundamental component of board effectiveness and integral to the delivery of Johnson Matthey's strategic plans. It ensures a consistent level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with any unforeseen events (such as the departure of a key individual), and in promoting diversity. The board, through the Nomination Committee, is actively engaged in succession planning to ensure plans are in place for the orderly and progressive refreshing of its membership and to identify and develop senior management with potential for board and GMC positions through a pipeline of talented and capable individuals from within Johnson Matthey.

Board succession

The board recognises the need to recruit Non-Executive Directors with the right technical skills and knowledge for its committees and who have the potential to chair them. During the year the board, through the Nomination Committee, recruited John O'Higgins who was appointed as a Non-Executive Director in November 2017. The succession planning for my role as Chairman and subsequent appointment of Patrick Thomas was led by Alan Ferguson, our Senior Independent Director. Further details are included in the Nomination Committee report on pages 101 and 102.

Executive succession planning

In addition to recruiting externally, it is important to develop internal talent for board appointments, and Johnson Matthey has a wide range of management development programmes for all employee levels, as described on page 52.

My induction

I joined the board in November 2017 and received a tailored induction programme. I met with the Chairman, Chief Executive and Chief Financial Officer on a one to one basis to discuss current priorities, strategy, future plans and review specific aspects of the business. I also met with the General Counsel and Company Secretary who provided an overview of the group, the organisational structure and the corporate governance framework.

I met with the Sector Chief Executives at Royston, Billingham and Sonning, UK, and with the US-based Health sector management team. This gave me the opportunity to tour the sites and meet the teams so as to understand more about Johnson Matthey's people, products and processes.

John O'Higgins
Non-Executive Director

Each of our sectors and corporate functions prepare and maintain succession plans, assisted by Human Resources. A key aim is to ensure that we have the right mix of talent capability to support our business strategies whilst also encouraging broad experiences through movement of talent across our sectors and corporate functions. The GMC reviews these plans each year and the identification and development of high potential individuals is also considered. The GMC's review of succession plans generally leads to further refinement and changes, resulting in the final plans which are submitted to the Nomination Committee. Each year the Nomination Committee, with input from the Chief HR Officer, reviews the management development and succession planning processes for the directors and senior executives, approves succession plans for the board and considers succession plans for senior executives.

Succession planning at board and senior management level for Johnson Matthey includes potential succession to all senior roles, including that of the Chief Executive, and considers the identification, development and readiness of potential internal successors. The board (through the Nomination Committee) continues to focus on the key issues of active talent management, mobility across the group and diversity.

Directors' induction and development

Johnson Matthey provides full tailored induction programmes for all its new board directors. These are intended to give a broad introduction to the group's businesses and its areas of significant risk. Key elements include meeting the Executive Directors and management, and visiting the group's major sites in order to gain an understanding of group strategy and of individual businesses.

Our intention is that all directors are familiar with, and gain an appropriate knowledge of, Johnson Matthey through visits to our operations and meeting with employees. The board ensures that the company provides the necessary resources to allow this to happen. We take various steps to ensure that all of our directors continually refresh their knowledge and skills so that they can effectively fulfil their roles and so that their contributions remain informed and relevant.

The board has processes in place to ensure that it receives the right information in the right form and at the right time to enable it to effectively discharge its duties. The Chairman, through the Company Secretary and with the support of the Executive Directors and management, ensures that this information is of a high quality. Directors are able to seek clarification or amplification from management where necessary. Our directors have access to independent external professional advice at the company's expense where they judge this necessary.

Terms of appointment of the Non-Executive Directors

Our Non-Executive Directors are appointed for specified terms subject to annual election and to the provisions of the Companies Act 2006 (the 2006 Act) relating to the removal of a director. During the year and following a rigorous review, the board approved the extension of Tim Stevenson's term of appointment until 31st December 2018. Chris Mottershead, one of our Non-Executive Directors who will be proposed for re-election at the 2018 AGM, has served on our board for three years. His term of appointment was also reviewed and extended during the year until 26th January 2021.

Boardroom diversity

Our board believes that diversity is important for board effectiveness. As set out in our Diversity Policy, all appointments to the board are made on merit while taking into account suitability for the role, board balance and composition, the required mix of skills, background and experience. This includes consideration of diversity. In adopting our Diversity Policy, we have chosen not to set express diversity quotas. However, in Non-Executive Director selection processes the board encourages applications from diverse candidates subject to the objective selection criteria being met and to the appointment of the best qualified candidate. The board only engages executive search consultants who have signed up to the Voluntary Code of Conduct for Executive Search Firms to address gender diversity on corporate boards.

The policy requires the board to satisfy itself that plans are in place for orderly succession for appointments to the board so as to maintain balance and ensure progressive refreshing of the board. As set out on page 92, the board, through the Nomination Committee, annually reviews and approves the management development and succession plans for the directors and senior executives and makes recommendations to the board on its structure, size and composition.

Since the launch of the board policy in 2013, the board has made progress in broadening the diversity of the board and senior management. As at the date of approval of this annual report we had three women on our board, which represented 33% of our total board membership. During the year the board has continued to promote diversity and inclusion at all levels of the organisation and in the boardroom.

This includes developing policies and processes that prevent bias in relation to recruitment and promotion, such as actively discussing diversity in succession planning and talent management, promoting industrial and scientific careers to women and flexible employment policies. There remain challenges to overcome, particularly in respect of gender diversity given the sector in which Johnson Matthey operates, but we are making good progress. The information from our first UK gender pay gap report as explained more fully on page 54 helps us to focus on any underlying causes of any gender pay gap and take action accordingly.

Under the Code, evaluation of the board should consider board diversity (including gender), how the board works together as a unit and other factors relevant to its effectiveness. Our board followed this principle in its board and committee evaluation process in 2017/18. Further information is set out to the right under 'Evaluation of the board, board committees and directors'.

Pages 53 and 54: Diversity and inclusion

matthey.com/corporate-governance

Time commitment of the Chairman and the Non-Executive Directors

The board recognises that it is vital that all directors should be able to dedicate sufficient time to Johnson Matthey to effectively discharge their responsibilities. The time commitment required by Johnson Matthey is considered by the board and by individual directors on appointment. The letters of appointment of the Chairman and of each Non-Executive Director set out the expected minimum time commitment for their roles. Each undertake that they will have sufficient time to meet what is expected of them for the proper performance of their duties and acknowledge that there may, on occasion, be a need to devote additional time. The minimum time commitment considered by the board to be necessary for a Non-Executive Director, who does not chair a committee, is two days per calendar month following induction.

The other significant commitments of the Chairman and of each Non-Executive Director are disclosed to the board before appointment, with an indication of the time involved. These are periodically reviewed, including as subsequent changes arise. Periodic reviews are of particular importance as the board recognises that the commitments required from Non-Executive Directors can differ and evolve. Where Non-Executive Directors hold more than one other external commitment, the board carefully reviews the position to ensure that sufficient time will continue to be dedicated to Johnson Matthey.

Details of the directors' other significant commitments can be found on pages 84 and 85.

Indemnification of directors and insurance

Under Deed Polls dated 31st January 2017, Johnson Matthey has granted indemnities in favour of each director of the company and of its subsidiaries in respect of any liability that he or she may incur to a third party in relation to the affairs of the company or any group member. These were in force during the year for the benefit of all persons who were directors of the company or of its subsidiaries at any time during the year. They remain in force as at the date of approval of this annual report. The company has appropriate directors' and officers' liability insurance cover in place in respect of legal action against, amongst others, its Executive and Non-Executive Directors. Neither the company nor any subsidiary has indemnified any director of the company or a subsidiary in respect of any liability that he or she may incur to a third party in relation to a relevant occupational pension scheme.

Directors' conflicts of interest

We have established procedures in place in accordance with our Articles of Association to ensure we comply with the directors' conflicts of interest duties under the 2006 Act and for dealing with situations in which a director may have a direct or indirect interest that conflicts with, or may conflict with, the interests of the company. Johnson Matthey has complied with these procedures during the year.

In April 2018, the board undertook an annual review of potential conflict matters including in respect of directors' external appointments. In each case, the review was undertaken by directors who were genuinely independent of the matter. The board concluded that there were no matters which constituted a conflict. Potential conflicts will continue to be reviewed by the board on an annual basis.

The board confirms that Johnson Matthey complies with its procedures to authorise conflict situations and is satisfied that its powers to authorise conflict situations are being exercised properly and effectively and in accordance with its Articles of Association.

Evaluation of the board, board committees and directors

Having undertaken an internal review process in each of the prior two years, an external review was undertaken by independent consultants, Manchester Square Partners LLP (MSP). MSP have no other connection with the company.

The Chairman provided a comprehensive brief to MSP in December 2017. During January and February 2018, MSP held individual discussions with each member of the board, the Company Secretary, the Chief HR Officer and the KPMG lead audit partner regarding the board and its committees. The conversations were open, confidential and unattributed. Areas discussed included the board role, composition and dynamics, the agendas and board papers, strategy, culture and values, leadership, risk and governance.

MSP also observed our January board and committee meetings. Access to board and committee papers was provided electronically prior to the meetings via a secure electronic portal.

A report was prepared by MSP based on the feedback received and their own observations and experience. Following discussion with the Chairman, this was presented to the board in April 2018. The board discussed the report and agreed a number of actions.

On the following page we provide an update on the actions undertaken from the 2016/17 internal review, led by the Chairman, the feedback and insight from the 2017/18 external review and the actions to be taken in 2018/19.

The board's intention remains to undertake an externally facilitated evaluation process at least every three years. In the intervening years, the review will be led by the Chairman supported by the committee chairs and the Company Secretary.

Board evaluation

	2016/17 Action	2017/18 Insight and update	2018/19 Action
Strategy	In the 2016/17 review, the board felt that there could be more discussion of the shape and strategy for the group overall and its business model in order for the board to address the medium to long term options for continued growth.	During the year the board spent considerable time developing and refining strategy, resulting in good alignment on and understanding of the group's strategic priorities. The Non-Executive Directors valued the increased time spent on these matters.	Whilst not losing focus on strategic direction, there will now be an evolution in the board's role more towards refining and monitoring execution of agreed strategies. In 2018/19 it will be necessary to ensure that sufficient time is allowed for iterative discussions, including investment decisions, whilst maintaining time for discussing customers, suppliers, talent development, culture and compliance.
Risk management	The 2016/17 review found that the proposals for board risk reviews had been well executed but further work was required to embed an appropriately robust process throughout the group.	Risk management and reporting were considered to be thorough but continued focus would be required to ensure full embedding of ownership at all levels of the group.	This will need to be continuously monitored as the business evolves to ensure early identification and mitigation of emerging risks.
Board composition	The 2016/17 review confirmed that, taking into account some change in composition, the group of Non-Executive Directors still had good diversity of experience, background and gender and knowledge about the group's major markets.	The review confirmed that there was a good mix of complementary, relevant skills and diverse experiences on the board.	In considering succession planning, the board will consider the need for further international experience on the board, as well as having regard to other elements of diversity.
Board dynamics	The 2016/17 review found opportunities to work together, not only within the board but importantly when visiting businesses and meeting senior colleagues, were valuable, particularly in enabling the cementing of board relationships. There was still scope for greater contribution and input from the Non-Executive Directors, particularly on key strategy issues and on areas where they could identify what 'good looks like'.	The board was stated to be friendly, collaborative, open and supportive and the Non-Executive Directors appropriately engaged. Discussions were described as open and collaborative.	As we deliver our strategy, we need to ensure the Non-Executive Directors continue to further their challenge, support and contribution to the Executives. In this context the board is considering whether more time together and with management would be beneficial. The continued use of 'teach-ins' on major business areas, explicitly separated from consideration of strategy, will also support this.
People	In the 2016/17 review, the Non-Executive Directors valued continuing to receive regular updates on key people moves from the Chief Executive and the opportunity to express views on issues that arise.	People matters, including talent development, succession and employee engagement, were felt to be high on the agenda and the Non-Executive Directors welcomed their exposure to management below the Executives. All Non-Executive Directors were appropriately involved in the Chairman's succession.	Site visits are an important part of employee engagement and potential further opportunities for these will be found.

Review of the Chairman's performance

The Non-Executive Directors recognise that the Chairman's effectiveness is vital to that of the board. Led by Alan Ferguson, the Senior Independent Director, the Non-Executive Directors are responsible for performance evaluation of the Chairman and for providing a fair and balanced assessment to shareholders.

In April 2018, the Non-Executive Directors, led by Alan, met without Tim Stevenson being present to discuss Tim's performance. Key considerations were his overall leadership of the board, the setting of tone, the planning of appropriate agendas and the effectiveness of structuring and facilitating discussions. The views of Executive Directors were also taken into account. Alan subsequently reported the outcome to the board that Tim's leadership of the board continued to be effective and engendered openness and constructive challenge.

Review of the Executive Directors' performance

The Chairman met with the Non-Executive Directors without the Executive Directors being present in November 2017 in order to review the Executive Directors' performance. Each of the directors was considered to be effective in discharging their responsibilities.

Annual election of directors

In accordance with the Code, all directors retire at each AGM and offer themselves for election or re-election by shareholders.

John O'Higgins joined the board as a Non-Executive Director on 16th November 2017. Patrick Thomas joined the board as a Non-Executive Director and Chairman Designate on 1st June 2018. As required by our Articles of Association, John and Patrick will retire at the 2018 AGM and offer themselves for election. All other directors will be offering themselves for re-election.

Our five Non-Executive Directors and Chairman Designate are each determined by the board to be independent directors in accordance with the criteria set out in the Code. The board considers that their skills, experience, independence and knowledge of the company enable them to discharge their respective duties and responsibilities effectively. Biographies of each of the directors standing for election or re-election can be found on pages 84 and 85.

Our 2018 AGM circular details why the board believes each director should be elected or re-elected based on continued satisfactory performance in the role. In the circular, the Chairman confirms to shareholders that, following formal performance evaluation, the performance of each Non-Executive Director continues to be effective and that they demonstrate commitment to the role (including commitment of time for board and board committee meetings).

Remuneration

The board has established a Remuneration Committee. The composition and role of the Remuneration Committee is set out in the Annual Report on Remuneration.

Pages 122 to 130

Accountability

Financial and business reporting

In its reporting to shareholders, the board recognises its responsibility to present a fair, balanced and understandable assessment of the group's position and prospects. This responsibility covers the annual report and accounts and extends to half year and other price sensitive public reports and reports to regulators, as well as to information required by statutory requirements.

The directors are responsible for preparing this annual report and consider it, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Each of the four sectors; Clean Air, Efficient Natural Resources, Health and New Markets, was managed by executive management teams reporting to the GMC. The GMC reviewed bi-monthly summaries of financial results from each sector through a standardised reporting process. The group has a comprehensive integrated strategic planning and annual budgeting process including three-year and ten-year plans. Budgets are approved by the board and variances are closely monitored.

Pages 5 and 62 to 69: Our four sectors

Risk management and internal control

The board is ultimately responsible for maintaining sound risk management and internal control systems (including financial controls, controls in respect of the financial reporting process and controls of an operational and compliance nature).

The company's internal control systems are on a groupwide basis and the review of their effectiveness (including of the application of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council in September 2014 (FRC Guidance)) is implemented and reported from a groupwide perspective, covering the company and its subsidiaries. There are no material joint ventures or associates which have not been dealt with as part of the group for the purposes of applying the FRC Guidance.

Our risk management systems and internal control systems are designed to meet the group's needs and to manage the risks to which it is exposed, including the risks of failure to achieve business objectives and of material misstatement or loss. However, such risks cannot be eliminated. Our systems can only provide reasonable, but not absolute, assurance. They can never completely protect against such factors as unforeseeable events, human fallibility or fraud.

The board confirms that there is an ongoing process in place (established in accordance with the FRC Guidance) for identifying, evaluating and managing the principal risks faced by the group. This process is regularly reviewed by the GMC, the board and the Audit Committee as appropriate and has been in place during the year and up to the date of approval of this annual report.

The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board's view of Johnson Matthey's key strategic and operating risks and how the company seeks to manage those risks is set out in this report.

The directors confirm that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.

Our principal risks

Pages 78 to 81

Risk management and internal control systems

The group's risk management and internal control systems comprise group policies, procedures and practices covering a range of areas including the appropriate authorisation and approval of transactions, the application of financial reporting standards and the review of financial performance and significant judgements.

Review of effectiveness of the group's risk management and internal control systems

The board has important responsibilities in respect of the group's risk management and internal control systems (including financial controls, controls in respect of the financial reporting process and controls of an operational and compliance nature). The board monitors these carefully throughout the year and carries out an annual review of their adequacy and effectiveness. The board has delegated part of this responsibility to the Audit Committee. The role and work of the Audit Committee in this regard and the role of the group's Corporate Assurance and Risk function are described in the Audit Committee Report on page 107.

The board, through setting its own annual agenda plan, defines the review process to be undertaken, including the scope and frequency of assurance reports received throughout the year. The board agenda plan, together with that of the Audit Committee, are designed to ensure that all significant areas of risk and the related risk management and internal control systems are reported on and considered during the course of the year. In addition to determining risk appetite, the board specifically reviews, amongst other things, risks relating to EHS, innovation, legal and compliance and intellectual capital.

The board, in part through the Audit Committee, has conducted an overarching review of the effectiveness of the company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls, and financial reporting processes, for the year. The review process accords with the FRC Guidance.

The Audit Committee

The composition of the Audit Committee is set out in the Audit Committee Report (pages 103 to 110), which describes the work of the Audit Committee in discharging its responsibilities.

The board is satisfied that at least one member of the Audit Committee, Alan Ferguson, has recent and relevant financial experience, including competence in accounting and that the Audit Committee as a whole has competence relevant to the sectors in which the company operates.

Stakeholders

Our approach to our stakeholders is central to our decision making. We keep in close contact with our shareholders, workforce, customers and suppliers, to ensure we are aware of each other's priorities and consider their views appropriately in decision making.

Pages 20 and 21: Our stakeholders

Shareholders

Information on how we manage relations with our shareholders is set out to the right and on the following page.

Workforce

The board welcomes the opportunity to engage with the workforce. Site visits provide the chance to meet with local management, both formally and informally, to obtain their views on the opportunities and risks and gauge the culture. In receiving presentations on strategy, we ensure that the Sector Chief Executive or key functional head, and where relevant, their teams, attend the board meeting so their views can be heard and considered.

We have a variety of management committees across the group, at both a sector level and country level, which provide a forum to understand issues across the group. There are also plans in place to undertake our next employee engagement survey in September 2018.

We have processes in place for the workforce to be able to raise concerns in a confidential manner. Further details on our speak up arrangements are set out on pages 54 and 59. The board receives regular reports on speak up matters which provide further insight into the culture across the group.

Customers

Understanding our customers' needs helps us to deliver the best solutions for them and the board considers this as part of its strategy and approving capital investments.

Pages 32 to 37: Customers

Suppliers

Working well with our suppliers is essential to our business. It ensures a responsible approach to our supply chain and mitigates risks. During the year the board approved Johnson Matthey's Modern Slavery and Human Trafficking Statement which sets out the steps taken to prevent modern slavery in our business and supply chains.

Pages 20 and 21: Our stakeholders

Pages 40 to 42: Responsible sourcing

matthey.com/modern-slavery

Relations with shareholders

Dialogue with our shareholders

Our board welcomes the opportunity to openly engage with shareholders as it recognises the importance of a continuing effective dialogue, whether with major institutional investors, private shareholders or employee shareholders. The board takes responsibility for ensuring that such dialogue takes place.

Reporting of results and Capital Markets Day

We report formally to our shareholders when we publish our full year results in May and our half-yearly results in November. When we publish the results, our Executive Directors give presentations in meetings with institutional investors, analysts and the media in London. Live webcasts and transcripts of these presentations are available on our website.

In addition, we hold a Capital Markets Day for our institutional investors and analysts. The last of these was held in September 2017. A live webcast of the presentation to investors, a transcript of the event and a downloadable copy of the slides are made available on our website.

matthey.com/cmd-17

Contact with our shareholders

Our Chairman takes overall responsibility for ensuring that the views of our shareholders are communicated to the board and that our directors are made aware of major shareholders' issues and concerns. However, contact with major shareholders is principally maintained by the Chief Executive and the Chief Financial Officer. They have a regular dialogue with institutional shareholders on performance, plans and objectives through a programme of one to one and group meetings and ensure that shareholders' views are communicated to the board. Our Investor Relations department acts as a focal point for contact with investors throughout the year.

During the year the Chairman and Senior Independent Director met with institutional investors to hear their views and discuss governance and strategy matters. The Chairman, Senior Independent Director and the other Non-Executive Directors continue to be available to discuss matters of concern if requested.

Overall, the board believes that appropriate steps have been taken during the year to ensure that the members of the board, and in particular the Non-Executive Directors, develop an understanding of the views of major shareholders. These have included, for example, analysts' and brokers' briefings, consideration by the board of six monthly brokers' reports and feedback from shareholder meetings on a six-monthly basis. Major shareholders' views are canvassed for the board in a detailed investor survey which is usually conducted every two years by external consultants. The purpose of these surveys is to obtain the views and opinions of a broad range of shareholders and non-shareholders. A survey was undertaken in early 2018 and the results discussed by the board in April 2018.

The Remuneration Committee undertakes detailed consultation exercises with a selection of major institutional shareholders and institutional investor bodies as part of its comprehensive review of Executive Director and senior management remuneration arrangements within the group.

The board reviewed the arrangements for communicating with shareholders during the year and concluded that they remain a practical and efficient way for all our directors to keep in touch with shareholders' opinions and views and to reach a balanced understanding of major shareholders' objectives, issues and concerns.

While the board recognises that the company is primarily accountable to its shareholders, it also recognises the contribution made by other providers of capital and confirms its interest in listening to their views, including where relevant, on the company's overall approach to governance.

Annual General Meetings

The AGM is an important part of effective communication with shareholders. Our AGM takes place in London. Notice is sent to shareholders at least 20 working days beforehand and is published on our website. The circular sent to shareholders with the notice aims to set out a balanced and clear explanation of each proposed resolution. All directors who are able to attend our AGMs do so. In 2017, the entire board attended.

At the AGM, we propose separate resolutions on each substantially separate issue. For each resolution, shareholders may direct their proxy to vote either for or against or to withhold their vote. The proxy form and the announcement of the results make it clear that a 'vote withheld' is not legally a vote and is not counted in the calculation of the proportion of the votes cast. All valid proxy appointments received are recorded and counted.

All resolutions at the AGM are decided on a poll carried out by electronic means. The results are announced as soon as possible and posted on our website. This shows votes for and against as well as votes withheld.

2018 AGM

Our 2018 AGM will be held on 26th July 2018. The notice, together with an explanation of the resolutions to be considered, is set out in a circular to shareholders. Our board welcomes the opportunity for face to face communication with our shareholders. Shareholders are encouraged to participate and all directors are available to answer questions, formally through the Chairman during the meeting and informally afterwards.

matthey.com/shareholder-information

Compliance with the UK Corporate Governance Code

Code provision E.1.1 states that the Senior Independent Director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. Whilst the Senior Independent Director did meet with some major shareholders, the board does not consider this to be sufficient to have fully complied with this provision throughout the year. The board has concluded, however, that there are appropriate mechanisms in place to listen to the views of shareholders and communicate them to the board without it being necessary for the Senior Independent Director to attend meetings with major shareholders. However, he is available to attend any such meetings if requested by shareholders. The board believes that this approach is consistent with the relevant main principle of the Code on dialogue with shareholders and is consistent with good governance and the promotion of delivery of the company's objectives. This approach will continue throughout the current year but the board will keep the matter under review.

Nomination Committee Report

This year we focused heavily on succession planning to ensure Johnson Matthey continues to have a board with the right skills to effectively develop the company's strategy and a strong executive team to implement and support it.

Tim Stevenson
Chairman of the Nomination Committee

The year under review saw changes to our board composition. I am pleased to announce that Patrick Thomas was appointed to the board as Non-Executive Director and Chairman Designate with effect from 1st June 2018 and will be taking on my role as Chairman after our Annual General Meeting (AGM) on 26th July 2018. Led by Alan Ferguson, our Senior Independent Director, the committee spent significant time during the year on the recruitment for my role and is confident that Patrick will successfully steer the company in delivering its strategy. We also refreshed our board in November 2017 when John O'Higgins joined as Non-Executive Director, following Colin Matthews' decision to step down. During the year, we also continued our focus on succession planning and talent management for the senior management, recognising the importance these roles play in supporting the group's strategic aspirations.

Role

The principal role of our Nomination Committee is to keep under review the structure, size and composition of the board and to make appropriate recommendations to the board with respect to any necessary changes. We also consider the adequacy and effectiveness of senior management development and succession planning processes for board members and senior executives and ensure the adequacy and effectiveness of the group's processes for identifying and developing the future senior management pipeline.

Further details on our role and responsibilities can be found in our corporate governance framework.

matthey.com/corporate-governance

Composition

Our committee has six members, myself as Chairman and all the independent Non-Executive Directors. Only members of the committee have the right to attend meetings. The Chief Executive and the Chief HR Officer, as well as external advisers and others, attend for all or part of our meetings by invitation when appropriate. Simon Farrant, our Company Secretary, is secretary to the committee.

Committee meetings during the year

Our committee usually meets immediately prior to or following board meetings and on other occasions as needed.

We met seven times during the year. I also kept committee members up to date between meetings. Several members of the committee also met as a working group during the year to progress Non-Executive Director recruitment and recruitment for the position of Chairman. The attendance of members at meetings during the year is set out below.

	Date of appointment to committee	Number of meetings eligible to attend	Number of meetings attended	% attended
Tim Stevenson	29th March 2011[1]	7	6[2]	86%
Odile Desforges	1st July 2013	7	7	100%
Alan Ferguson	13th January 2011	7	7	100%
Jane Griffiths	1st January 2017	7	6[3]	86%
Colin Matthews	4th October 2012	4[4]	4	100%
Chris Mottershead	27th January 2015	7	7	100%
John O'Higgins	16th November 2017	3	3	100%

1 Tim Stevenson was appointed Chairman of the board and the committee on 19th July 2011.

2 Tim Stevenson was unable to attend one meeting due to illness. In his absence, Alan Ferguson, Senior Independent Director, chaired the committee meeting. Tim Stevenson reviewed all meeting papers and shared his thoughts, comments and questions with Alan Ferguson, who raised these at the meeting.

3 Jane Griffiths was unable to attend one meeting due to prior commitments with Johnson & Johnson. She reviewed all papers and shared her thoughts, comments and questions with Alan Ferguson, who raised these at the meeting.

4 Colin Matthews retired from the board and the committee on 15th November 2017.

Committee activities during the year

Our principal activities during the year, and up to the date of approval of this annual report, were as follows:

Chairman succession	My term of appointment was due to expire at the end of the company's 2017 AGM. After considering my performance and ability to contribute to the board, an extension to the term of my appointment until 31st December 2018 was recommended to the board. Led by the Senior Independent Director, the committee conducted a search process for a new chairman. • Read more on pages 101 to 102.
Non-Executive Director succession	Having conducted a search process for a new Non-Executive Director with assistance from The Zygos Partnership, recommended to the board the appointment of John O'Higgins as a new Non-Executive Director. Recommended to the board that on the retirement of Colin Matthews in November 2017, Chris Mottershead should chair the Remuneration Committee.
Renewal of appointment terms – Chris Mottershead	Having considered his performance, ability to continue to contribute to the board and time commitment, as well as his independence and the need for progressive refreshing of the board, recommended to the board that the term of appointment of Chris Mottershead as Non-Executive Director be renewed for a further three year term to 26th January 2021.
Talent management framework	Received a presentation from the Chief HR Officer and the Group Talent and Learning Director on the group's integrated talent management process, addressing the talent requirements for delivery of our strategic aspirations and noting that the next engagement survey would take place in 2018.
Succession planning and senior management changes	Reviewed the 2018 succession and development plans in respect of the Group Management Committee (GMC) including the Chief Executive, and other senior executives in each sector and function. Discussed GMC membership, responsibility changes and senior (non-GMC) moves. Considered the process for, and progress in, recruiting a Chief Strategy and Corporate Development Officer and a Chief Executive for the Health Sector.
Review of performance and effectiveness during 2017/18	With the assistance of external consultants, Manchester Square Partners LLP, reviewed our committee's performance and effectiveness.
Review of committee terms of reference	Undertook a thorough review of the committee's terms of reference to ensure that they reflected legal and governance requirements and continued to be fit for purpose. The terms of reference were subsequently expanded to clearly cover both periodical assessment of the knowledge, skills and experience of individual members of the board, and the board collectively, and review and recommendation of the Diversity Policy to the board for approval.
Nomination Committee Report	Reviewed and approved the draft Nomination Committee Report for 2017/18.

Board appointments

In considering board composition, we assess the range and balance of skills, experience, knowledge and independence on the board, identify any gaps or issues and consider any need to refresh the board. If, after this evaluation, we feel that it is necessary to appoint a new director we then prepare a description of the role, the capabilities and characteristics required for the appointment and set objective selection criteria accordingly. The benefits of diversity, in its broadest sense, on the board are carefully considered. We consider any proposed recruitment in the context of the company's strategic priorities, plans and objectives, as well as the prevailing business environment. We also take into account relevant succession plans already in place.

In appointing Non-Executive Directors we seek individuals who can make positive contributions to the board and its committees and who have the capability to challenge on strategic and other matters. This is balanced with the need to maintain board cohesiveness.

We use external search consultancies to help with the appointment process and appointments are ultimately made on merit against the agreed objective selection criteria, having due regard, amongst other things, to the benefits of diversity.

While the board has not set express gender or other related diversity quotas or measurable objectives, the board seeks to encourage applications from diverse candidates, subject to the selection criteria being met.

Succession planning

A key role of the Nomination Committee is to ensure that plans are in place for the orderly and progressive refreshing of the board and to identify and develop individuals with potential for board and GMC positions. As announced in April 2017, we made several changes in the leadership of our group and the Nomination Committee played a key role in supporting the Chief Executive in making these changes. During the year we discussed the recruitment of two key positions: the Chief Strategy and Corporate Development Officer and the Sector Chief Executive, Health. Matthew Harwood and Jason Apter joined Johnson Matthey in July 2017 and March 2018 respectively. You can read more about their experience on page 13. The Nomination Committee has continued to focus on active talent management, mobility across the group and diversity within the year.

We considered a presentation from our Chief HR Officer in respect of Johnson Matthey's leadership pipeline in the context of the group's talent strategy. This covered both assessment and development of internal talent as well as external recruitment. We also considered a presentation on the company's integrated talent strategy and talent focus for 2018. This included discussion of further strengthening of performance management across the group.

Non-Executive Director succession

During the year, we decided it was desirable to seek a further Non-Executive Director following Colin Matthews' decision to step down from the board. The preference expressed to the headhunters was for a current serving Chief Executive with strong international experience to further support and challenge our strategy. We engaged The Zygos Partnership in a search process which led to the appointment of John O'Higgins in November 2017. The Zygos Partnership is a signatory to the Voluntary Code of Conduct for Executive Search Firms and has no connection with the company, other than Non-Executive Director recruitment. The Committee felt that John O'Higgins' executive experience in successfully driving growth as well as improving operational efficiencies and his independence in character and judgement would be beneficial to the board as a whole.

Chairman succession

The term of my appointment as Chairman was reviewed in May 2017. After full review, this was extended to 31st December 2018. Given my intention to step down as Chairman by this date, Alan Ferguson, our Senior Independent Director led a process on behalf of the committee to search for my successor.

Leading the search for a new Chairman

As Senior Independent Director, I led the search for a new Chairman for Johnson Matthey.

The Committee decided to appoint The Zygos Partnership to support the recruitment process, given their knowledge of the board and the company following the successful recruitment of John O'Higgins. As the announcement of Tim's retirement was made to the market and interested parties were able to contact me directly, it was not considered necessary to publicly advertise the role.

Following detailed discussions, the committee agreed the key skills, experience and characteristics required for the role which were shared with The Zygos Partnership. It was felt that the new Chairman should have a successful and accomplished track record as a global industry leader, preferably in the areas of science and technology, be strong strategically and have demonstrated an ability to bring leadership to a board. Candidates would also likely be low ego, down to earth, challenging and yet supportive, indeed a natural mentor, with strong people and communication skills.

As you can see from the timeline for the recruitment (page 102), the committee invested significant time and effort to ensure that the right candidate was appointed. The Zygos Partnership put forward an extensive range of candidates for the committee to initially consider. Following detailed discussion, this was narrowed down to a shortlist for interview by myself and the Chief Executive. This shortlist developed and evolved over the period. In order to canvas views, a small selection of candidates met with some of my fellow directors and, in time, the preferred candidate met with the rest of the board, the Company Secretary and the Chief HR Officer.

Tim Stevenson, as outgoing Chairman, did not take part in the selection process. However, I did consult him for his views and considerations on the role.

Following full consideration, the Nomination Committee unanimously recommended to the board to appoint Patrick Thomas as an independent Non-Executive Director and Chairman Designate with effect from 1st June 2018. Patrick's succession as Chairman will take place after the 2018 AGM. The committee believes Patrick is very well placed to lead the board and support the management team in delivering its strategy.

Alan Ferguson
Senior Independent Director

Timeline of succession planning

Date	Action
June 2017	It was announced that Tim Stevenson had confirmed to the board his intention to step down as Chairman of the company by 31st December 2018.
July 2017	Following multiple discussions and working with The Zygos Partnership, the Nomination Committee identified the key skills, experience and characteristics required for the role of the Chairman.
October 2017 – February 2018	Alan Ferguson and Robert MacLeod interviewed the shortlisted candidates with the list evolving over this period. A small selection of candidates met with other board members.
February – March 2018	All board members, the Company Secretary and Chief HR Officer met with the preferred candidate.
April 2018	Following recommendation from the Nomination Committee, the board approved the appointment of Patrick Thomas as Non-Executive Director and Chairman Designate with effect from 1st June 2018.
July 2018	Subject to shareholder approval, Patrick Thomas will be Chairman with effect from the close of the 2018 Annual General Meeting.

The Chief Executive and the Company Secretary have commenced a detailed induction process for Patrick. Further details on this will be reported in the 2019 Annual Report and Accounts.

Committee effectiveness

The committee's annual performance review was externally facilitated by Manchester Square Partners LLP (MSP) who held meetings with all committee members to seek their individual views on the committee's composition, its responsibilities and the culture of meetings. The report from MSP, which was reviewed by the committee at its meeting in April 2018, contained positive feedback, including that the committee operated well and had strong processes in place for key appointments. The committee noted the importance of giving continued appropriate attention to the impact of new hires to the company's culture, and that of succession planning including the importance of diversity.

The Nomination Committee Report was approved by the Board of Directors on 30th May 2018 and signed on its behalf by:

Tim Stevenson
Chairman of the Nomination Committee

Audit Committee Report

The committee delivered its key priorities for the year, including a successful tender of the external audit.

Alan Ferguson
Chairman of the Audit Committee

I am pleased to present our report for the year ended 31st March 2018 which outlines the committee's activities during the year. Of particular note this year was the work carried out in respect of the external audit tender. We spent a significant amount of time planning this to ensure it was conducted effectively and efficiently in order to secure the best result for Johnson Matthey. Further details are set out on pages 108 and 109.

Continuing to monitor and review the effectiveness of the group's internal controls and risk management systems has been particularly important as we aligned our group structure to four sectors and the risk landscape continued to evolve. Each year, we look at the control environment of selected sectors and this year we focused on Clean Air and Health.

We have also looked at the risk management processes across the group and at risk assurance mapping. Throughout the year we have discussed and challenged risk and control matters and worked closely with the Group Assurance and Risk Director to ensure delivery of a well targeted and robust internal audit plan.

R Our principal risks

Page 76: Risk management systems

Looking ahead, we will monitor and support the successful transition to the new external auditor, ensuring audit quality is not put at risk during this period.

Role

Our principal role is to assist the board in carrying out its oversight responsibilities in relation to financial reporting, internal controls and risk management and in maintaining an appropriate relationship with our external auditor. More details on our role and responsibilities can be found in our terms of reference which were updated during the year and are available on our website.

matthey.com/corporate-governance

Composition

Our committee currently comprises five members: myself as Chairman and all of our independent Non-Executive Directors. We welcomed John O'Higgins to the committee in November 2017. This is my seventh year as Chairman of the committee. I am a Chartered Accountant with many years' experience working in finance, having been, over a 12 year period, the Group Finance Director at Inchcape plc, The BOC Group plc and Lonmin Plc. I also chair the audit committees of two other companies. As a committee, we have a broad range of knowledge, skills and experience gained from a variety of backgrounds, as detailed on pages 84 and 85. This is essential to the effective discharging of our duties.

The board has agreed that the committee has experience relevant to the sectors in which we operate and that I have recent and relevant financial experience, including competence in accounting, as required by the provisions of the UK Corporate Governance Code 2016.

The secretary to the committee is Simon Farrant, Company Secretary.

Committee meetings during the year

We met six times during the year. Attendance at these meetings was as follows:

	Date of appointment to committee	Number of meetings eligible to attend	Number of meetings attended	% attended
Alan Ferguson	13th January 2011[1]	6	6	100%
Odile Desforges	1st July 2013	6	6	100%
Jane Griffiths	1st January 2017	6	5[2]	83%
Colin Matthews	4th October 2012	3	3[3]	100%
Chris Mottershead	27th January 2015	6	6	100%
John O'Higgins	16th November 2017	3	3	100%

1 Alan Ferguson was appointed Chairman of the committee on 19th July 2011.

2 Jane Griffiths was unable to attend one meeting due to prior commitments with Johnson & Johnson. She reviewed all papers and shared her thoughts, comments and questions with Alan Ferguson, who raised these at the meeting.

3 Colin Matthews resigned from the board and the committee on 15th November 2017.

Since the end of the year, the committee has met twice and all members attended. The committee's meetings coincide with key events in the company's financial calendar. Following each meeting, I report on the main discussion points and findings to the board.

In order for us to properly discharge our role, it is critical that we have the opportunity to openly discuss with management any matter which falls within our remit and probe and challenge where necessary. The Chief Executive, the Chief Financial Officer and the Group Assurance and Risk Director attend all of our meetings and other senior managers attend to support the committee's activities and provide technical or business information as necessary.

In addition, our meetings were attended by the KPMG lead audit partner and other representatives from KPMG. Their attendance is important as it gives us the opportunity to seek their independent and objective views on matters which they encounter during their audit. At least once a year, we meet separately with the lead audit partner and with the Group Assurance and Risk Director, who manages the internal audit function, to discuss matters without executive management being present.

On a more frequent basis, I meet with the Chief Financial Officer, the Group Assurance and Risk Director, other senior management and with KPMG. This means any issues or concerns can be raised at an early stage, allowing me to ensure that sufficient time is devoted to them at the subsequent committee meeting.

Communication between the committee, management and the internal and external auditors is open and constructive.

Overview of how we discharged our responsibilities during the year

Our principal activities during the year, and up to the date of approval of this annual report, were as follows:

Role	Activity
Published financial information	
To monitor the integrity of the reported financial information and to review significant financial issues and judgements	• Reviewed the group's full year results and half-yearly results and considered the significant accounting policies, principal estimates and accounting judgements used in their preparation. • Reviewed the matters in support of preparing the accounts on a going concern basis and assessing the long term viability of the group. • Assessed the process which management put in place to support the board when giving its assurance that the 2018 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. • Received an update on new or forthcoming accounting standards that could materially impact the group, including IFRS 15 – 'Revenue from Contracts with Customers' and IFRS 16 – 'Leases'. • Responded to questions from the Financial Reporting Council (FRC) as part of their thematic review of significant accounting judgements and sources of estimation uncertainty. • Reviewed and approved the 2018 Audit Committee Report.

Role	Activity
Risk management and internal control	
To review the group's internal financial controls and its risk management systems and to monitor the effectiveness of the group's internal audit function	• Received reports at every meeting from the Group Assurance and Risk Director on the corporate assurance and risk reviews and risk management processes. • Monitored progress against the 2017/18 corporate assurance and risk plan and agreed the 2018/19 plan. • Monitored the effectiveness of the Corporate Assurance and Risk function. • Reviewed the key control framework and finance policies, including treasury policies. • Received reports from the Clean Air and Health Sector Finance Directors. • Received a report from the Precious Metals Finance Director on the outcome of a review of the precious metal governance framework including an enhanced set of controls. • Reviewed reports from the General Counsel on litigation and on the speak up (whistleblowing) procedures and outcomes. • Reviewed reports on credit controls and credit risks.
External auditor	
To ensure an appropriate relationship with the external auditor, to monitor its independence and objectivity, negotiate and approve its fees, recommend its reappointment or not and to ensure it delivers, based on a sound plan, a high quality effective audit	• Approved, after due challenge and discussion, KPMG's proposed terms of engagement, audit plan and fees for 2017/18. • Considered reports from KPMG on its audit. • Conducted a comprehensive external audit tender process and recommended two firms to the board, with a stated preference that PricewaterhouseCoopers LLP (PwC) be appointed as the external auditor for 2018/19. For further information, please see pages 108 and 109.

These activities are covered in more detail on the following pages.

Published financial information

Significant issues considered by the committee in relation to the group's and company's accounts

Ensuring the integrity of the accounts is fundamental to our remit. In preparing the accounts, there are a number of areas requiring management to exercise a particular judgement or a high degree of estimation. Our role is to assess whether the judgements and estimates made by management are reasonable and appropriate.

Significant issues considered by the committee in relation to the accounts	Work undertaken by the committee in forming an opinion
Refining process and stock takes	
When setting process loss provisions and agreeing commercial terms with customers, key judgements are made in estimating the amount of precious metal that may be lost during the refining and fabrication processes. In addition, refining stock takes involves key judgements in estimating volumes of precious metal bearing material in the refining system and the subsequent sampling and assaying to assess the precious metal content (accounting policies section on page 148).	In order to satisfy ourselves on the robustness of the stock take results and the adequacy of process loss provisions, we reviewed the results from the refinery stock takes together with explanatory commentary from management which included whether these results were in line with expectations and historic trends. We also reviewed the results as a percentage of throughput. The refining process and stock takes were also an area of focus for KPMG who reported its findings to us. We considered whether the accounting treatment for refining stock take gains and losses was in accordance with agreed methodology and concurred with management's opinion that it was. During the year, the committee agreed that a full refinery stock take in the UK refineries would be delayed. This was due to strong customer demand and concern over a possible shortage of palladium if our refinery had to be shut down for the stock take. In the absence of the full stock take, the committee reviewed additional controls and procedures to be performed by both management and KPMG, and were satisfied that they were appropriate.

Significant issue considered by the committee in relation to the accounts	Work undertaken by the committee in forming an opinion
Impairment of goodwill, other intangibles and other assets	
Key judgements are made in relation to the assumptions used in calculating discounted cash flow projections to value the cash generating units (CGUs) containing goodwill, to value other intangible assets not yet being amortised and to value other assets when there are indications that they may be impaired. The key assumptions are management's estimates of budgets and plans for how the relevant businesses will develop or how the relevant assets will be used in the future, as well as discount rates and long term average growth rates for each CGU (accounting policies section on page 147 and notes 18, 19 and 20 on pages 167 to 171).	As part of the annual impairment review of goodwill and other intangible assets not yet being amortised, we reviewed a report from management. This explained the methodology used and the rationale for the assumptions made including explanations for any significant changes from those used in prior years. For these annual impairment tests, there was significant headroom over the carrying value of the relevant CGU's net assets apart from the water business. In looking at the sensitivities of average growth expectations of the markets for water services, management concluded that an impairment of £11 million was appropriate. In addition, following the annual impairment review, a number of other asset impairments were identified as a result of restructuring activities during the year. Asset write offs totalling £55 million included in major impairment and restructuring charges comprise impairments of tangible fixed assets (£40 million) and goodwill, inventory and intangible assets (£15 million). There were no other significant impairments of other assets in the year. The impairment reviews were also an area of focus for KPMG who reported its findings to us. We concluded that management's key assumptions were reasonable.
Taxation	
Key judgements are made in arriving at management's best estimate of the tax charge included in the accounts, where the precise impact of tax laws and regulations is unclear (accounting policies section on page 147).	We reviewed explanatory papers from management which included a review of the appropriateness of the tax provisions, relevant disclosures and the impact of the recent US tax changes. KPMG also reported its findings in this area to us and we reviewed these. We concluded that the judgements, estimates and disclosures were reasonable and appropriate.
Post-employment benefits	
Key judgements are made in relation to the assumptions used when valuing post-employment benefit obligations (accounting policies section on page 147 and note 17 on pages 160 to 167).	We reviewed the report from management summarising actuarial valuations and key assumptions for the main post-employment benefit plans. We compared these assumptions with those made by other companies and those used last year. We also considered the opinions expressed by KPMG in this area. We concluded that the assumptions used are appropriate for the group's post-employment benefit plans.
Claims and uncertainties	
The business is exposed to potential claims and uncertainties and how to deal with these often involves significant judgement (accounting policies section on pages 146 and note 32 on pages 181 to 182).	We reviewed information provided by management in relation to legal claims and uncertainties in accordance with relevant accounting standards. After challenge, we concurred with their conclusions around provisioning and the contingent liability.

In addition to the above, the committee paid particular attention to the non-underlying charges this year as they were of a different magnitude to previous years. This involved understanding the rationale for the charge as well as how it was disclosed in the Consolidated Income Statement and accompanying notes to the accounts.

Fair, balanced and understandable

We reviewed and assessed the process which management has put in place to support the board when giving its assurance that the 2018 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provided the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This process included senior managers undertaking a detailed review of the sections of the Annual Report and Accounts that fall within their area of responsibility and confirming it is fair, balanced and understandable. A separate independent review is also undertaken and key sections are reviewed by our external advisers. Following our review, we confirmed to the board that we had reviewed the process put in place by management and that it was satisfactory.

Going concern and viability statement

We reviewed the matters, assumptions and sensitivities in support of preparing the accounts on a going concern basis and assessed the long term viability of the group. This included assessing the risks which would threaten our business model, the current funding position and different stress scenarios. We concluded that the group would be able to continue in operation, comply with facility covenants and meet its liabilities as they fall due over a period of at least three years and that the accounts should be prepared on a going concern basis. Further information can be found on pages 74 and 75.

Risk management and internal control

The committee assists the board in its overall responsibility for the group's internal controls by reviewing the adequacy and effectiveness of controls and risk management systems. The Corporate Assurance and Risk Director has a direct reporting line to me and is responsible for providing independent assurance that our risk management and internal control processes are operating effectively. She provides regular oversight of risk matters that affect our business and monitors compliance to ensure that any mitigation actions are properly managed and completed. She takes comfort from a number of other sources of internal assurance when reviewing the effectiveness of the group's systems of internal control.

Sector and functional control reviews

During the year the committee reviewed the control environment in Clean Air and Health. This gave us an opportunity to learn more about key financial risks and provide independent challenge as to how these were being managed, what control enhancements were being carried out and understand the bench strength of the sector finance teams. In particular, we heard from the Sector Finance Directors about the main themes arising from the key control assessment process, which enabled us to better understand the control environment in the sectors. We also received an update from the new Group Financial Controller on his first impressions of the group and the finance function.

The committee receives updates from individuals responsible for maintaining controls over financial risk areas across the group, so that we can be sure these are managed effectively. The Group Financial Controller presented an overview of the control framework and the finance policies which were being revised to clarify accountabilities and the committee sought assurance on the actions being taken. The committee also reviewed the treasury strategy and policies during the year, including the changes to the net investment hedging policy. These policies were recommended to the board for approval in accordance with our corporate governance framework. The committee also reviewed the precious metal governance framework and controls associated with the balances of precious metal held in the businesses.

Our principal risks

Pages 76 to 81

Corporate assurance and risk

The committee receives regular reports on the number and type of internal audit and security reviews undertaken during the period and how this compares to the plan, the key findings of those audits and reviews, the number and nature of actions to address the findings and progress made by management in implementing the actions. During the year we paid particular attention to the level of engagement of all our managers, whether at local, sector or executive level, in implementing corrective actions and in strengthening the control framework across all our sites, irrespective of location, size and activity. At each meeting we tracked progress in completing open actions and challenged management to ensure that actions were being dealt with in a timely manner.

We spend a significant amount of time reviewing the corporate assurance and risk annual plan to ensure it is comprehensive, well targeted and provides the appropriate level of assurance. In reviewing the 2018/19 plan, we considered the maturity of existing internal controls and the work planned by sector management, particularly the finance teams, to review and check the controls across different areas of their businesses. As part of the detailed planning process, information from a variety of sources was analysed to assess levels of risk. This included output from the key control assessment process, speak up concerns, previous internal audit findings, including EHS audits, as well as input from our strategy team in relation to future revenue growth. We also looked at what is not covered by the plan, either by way of business activity or geographic coverage. Where there is no coverage at certain sites or businesses, we discuss what other mechanisms are in place to check the adequacy of controls. We were pleased to see that the plan included assurance work undertaken by the functional teams, including Finance, as well as sector management. In addition, there were also proposals to enhance the second line of defence controls further, with the sectors reviewing each other. The plan was mapped against the principal risks which allowed us to see how much coverage there would be on each risk. We believe the 2018/19 plan addresses Johnson Matthey's key risks and its coverage is appropriate for the size and nature of the group. On the basis of our review, we approved the plan.

We pay close attention to the resourcing of the Corporate Assurance and Risk function, knowing that the calibre, knowledge and experience of individual auditors are critical to achieving an effective audit and this is supplemented with external support to provide specialist skills as required. At each meeting the Group Assurance and Risk Director is present and we have the opportunity to ask detailed questions and challenge her. We receive regular reports from her and we seek the views of managers and also of KPMG, all of whom have frequent contact with the function. We pay attention to whether the function has adequate standing across the group and is free from management or other restrictions. We review the performance of the function annually.

Internal control

The key control questionnaire process is an important part of our assurance programme. It is a bottom up process that requires sectors and management to certify the existence and effectiveness of key controls within their areas of responsibility. We assessed the effectiveness of the process and we evaluated the nature and quality of responses, the level of challenge to the responses, significant findings, areas for improvement and how management intended to address findings.

Risk management

Working with the board, the risk assurance processes were reviewed and refined. We concentrate primarily on reviewing the mitigating controls and the levels of assurance over these. The board may ask for additional assurance to be provided and this can be carried out by the Corporate Assurance and Risk function who report back on this to the committee.

Speak up issues

The committee receives regular updates on speak up (whistleblowing) issues. We review key matters raised via speak up reports and ensure the procedures allow proportionate and independent investigation of such matters, as well as appropriate follow up action. Due to the importance of this process to Johnson Matthey, the board delegates some responsibility to the committee and to the group's Ethics Panel.

External auditor

External audit plan

The external audit plan for 2017/18 began with a review of significant risks and an assessment of how those risks impacted on the audit approach which then formed the basis of the plan. In deriving the key audit risks, KPMG considered the internal and external factors impacting the group and the group's own risk assessment. These were then discussed with sector and group management and translated into audit risks which shaped the audit approach. Key audit risks were identified at the initial planning stage and were reviewed and refined during the course of the year. The final four risks are referred to in the Independent auditor's report on pages 192 to 197. Materiality and the scope were agreed, as set out on page 192. In assessing adequacy of coverage, we also looked at local materiality levels, whether local statutory accounts were to be signed off and the number of site visits to be carried out by the group audit team.

We also discussed the background and experience of the audit partners responsible for the largest local teams, independence and KPMG's audit quality framework. Following discussion, we concluded that the proposed plan was sufficiently comprehensive for the purpose of the audit of the group's accounts and approved the proposed fee after due challenge.

How we reviewed KPMG's performance

The committee is committed to ensuring a high quality audit and this is particularly important ahead of the audit transition from KPMG to PwC.

Towards the end of the 2016/17 external audit, a feedback questionnaire was circulated to the Executive Directors and senior management. They were asked to rate how satisfied they were with KPMG, including its level of planning, ability to meet objectives, industry and specialist knowledge, organisation, ability to challenge management, independence, level and quality of communication and value for money. The results showed an overall level of satisfaction with KPMG. Stephen Oxley, the lead audit partner, presented an action plan for the 2017/18 audit to address the areas for further improvement, including at a sector level.

We also reviewed the FRC's report highlighting the principal findings they found when reviewing a selection of KPMG's audits in 2016/17, including Johnson Matthey's. This gave us some insight into how the FRC sees the quality of KPMG's work and is relevant to the consideration of audit quality.

On a continuous basis throughout the year, we look at the quality of KPMG's reports and the performance of Stephen Oxley both in and outside committee meetings. We pay particular attention to the way Stephen and the team interact with and challenge management as well as the effectiveness of the relationship between the internal and external audit teams. We also obtain feedback from the Chief Executive, the Chief Financial Officer and the Group Financial Controller, all of whom have extensive interactions with KPMG. As noted earlier, I have regular one to one update meetings with Stephen to discuss agenda items and other matters which either Stephen or I feel are important.

Provision of non-audit services

Last year, in light of EU legislation and the FRC's Revised Ethical Standard, the committee adopted a new policy on the provision of non-audit services which was effective from 1st April 2017. The policy identifies certain types of engagement that the external auditor shall not undertake, including tax services, the preparation of accounting records and risk management procedures. It also sets out the circumstances in which a former employee of KPMG can be employed by Johnson Matthey and the procedure for obtaining approval for such employment.

The policy also includes key controls to ensure that the provision of non-prohibited services does not create a threat to KPMG's auditor independence and objectivity. The auditor can be invited to provide non-audit services which, in its position as auditor, it must or is best placed to undertake and which do not impact auditor objectivity or independence. The policy sets out how approval should be obtained prior to KPMG being engaged. Services likely to cost £25,000 or less should be approved by the Chief Financial Officer; services likely to cost more than £25,000 but £100,000 or less must be approved by myself as Chairman of the committee and services likely to cost over £100,000 must be approved by the committee. During the year, I approved the engagement of KPMG to provide assurance over cyber risk management. The committee approved the provision of additional accounting advice on the implementation of IFRS 15 and the reappointment of KPMG to provide further independent programme assurance in relation to the implementation of new business information systems.

During the year the committee reviewed compliance against the policy and the provision of non-audit services and details of the non-audit services provided by KPMG and associated fees. Non-audit fees in the year were £0.8 million compared to audit fees of £2.2 million. The non-audit fees predominantly comprised expenditure on the provision of independent programme assurance (a continuing spend from prior year). More information on fees incurred by KPMG for non-audit services, as well as the split between KPMG's audit and non-audit fees, can be found in note 10 on the accounts, page 154.

An additional interim policy on the engagement of those audit firms tendering for the external audit was applied during the year to ensure they were not precluded from participating in the tender process and to avoid any independence issue arising in the run up to the appointment of a new auditor.

Objectivity and independence

The committee is responsible for monitoring and reviewing the objectivity and independence of the external auditor to ensure this is safeguarded. Given the work outlined above, the committee concluded that the audit was both independent and effective.

External audit tender

KPMG (and its predecessor entities) has been our external auditor since 1986, following a full tendering process in 1985. We have undertaken a review of KPMG's performance every year since then. Stephen Oxley, our current lead audit partner, was appointed in 2013/14 and each year since then he has taken steps to refresh KPMG's approach to certain aspects of its audit.

As disclosed in last year's annual report, it was always our intention to put the audit out to tender when Stephen's term expired, after completion of the 2017/18 audit. This approach is in line with EU legislation on audit firm rotation requirements, which came into force on 17th June 2016. Under the EU audit reform transitional arrangements KPMG's last possible audit would be for the year ended 31st March 2020.

The committee was fully responsible for the operation of the audit tender process and for recommending two firms of auditors to the board, together with the committee's preference. KPMG was not invited to participate. Set out on the following page is a summary of the detailed process carried out.

Activity relating to the external audit tender

March 2017	The Audit Committee Chairman, Chief Financial Officer and senior management considered who should be invited to tender for the appointment. The appointment was discussed with various firms.
June 2017	The Audit Committee Chairman and Chief Financial Officer met with the audit firms who had confirmed their participation in the tender. We provided an outline of the tender process and discussed the key attributes we would expect to see in the senior members of the group audit team, including the lead audit partner, and the likely structure of that team. The objective of this was to ensure each firm put forward the highest quality team to lead the tender that fits best with our requirements. Each firm was also requested to confirm that it had not carried out any services for us which would cause an issue with audit independence and that they had processes in place to ensure their independence throughout the tender process.
September 2017	The Audit Committee Chairman and Chief Financial Officer met with a number of prospective lead audit partners from each participating firm and decided who would lead the tender from each firm.
November 2017	The committee finalised the selection criteria for the tendering process. These included: • Quality of audit. • Continuous improvement and innovation in the audit approach, including through data analytics. • Independence. • Geographic coverage. • The team and cultural fit with a particular focus on the lead partner. • Understanding the business and industry. • Ability to challenge management and display rigour in approach. • Value for money. The committee signed off the tender request.
December 2017	The tender request was issued and a data room opened.
January 2018	Meetings were held with key management, the Chairman and the Chairman of the Audit Committee to allow the tendering firms to gain an insight to the business, the culture and our requirements. Feedback was gathered to provide input into the subsequent decision making process.
February 2018	Written tenders were submitted. Three shortlisted firms gave presentations to a panel comprising all Audit Committee members, the Chairman, Chief Financial Officer and Group Financial Controller. A formal decision was made by the committee, having given full consideration to the panel's recommendation. The committee recommended two firms to the board for approval, with a stated preference for PwC. The committee believe that PwC has a strong team with the skills and experience to provide rigour and challenge in the audit.

Proposed appointment of PricewaterhouseCoopers LLP (PwC)

After considering the committee's recommendation, and as announced in March 2018, the board selected PwC as the group's auditor for the financial year commencing 1st April 2018 subject to the approval of shareholders at the 2018 Annual General Meeting (AGM). The lead audit partner is Mark Gill.

A resolution proposing PwC's appointment is included in the notice of the AGM.

Audit transition

The committee will closely monitor the audit transition from KPMG to PwC and the Chief Financial Officer and I will meet regularly with both lead partners from the firms to discuss progress.

I look forward to reporting on PwC's first audit in the 2019 Annual Report and Accounts.

Statement of compliance

The committee confirms that, during the financial year ended 31st March 2018, the company complied with the applicable provisions of the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Committee effectiveness

The committee's annual performance and effectiveness evaluation was externally facilitated by Manchester Square Partners LLP, who held meetings with all committee members, the Executive Directors and KPMG to seek their views on matters such as committee composition, its responsibilities and the dynamic and culture of meetings. The report was positive and confirmed that the committee operates effectively and manages its remit well.

Our priorities

In last year's annual report we set out our priorities, over and above our business as usual work, for 2017/18. Below we report on the status of these and set out our priorities for 2018/19.

2017/18	Comments
• Continue to monitor progress of the investment in business information systems.	Due to the size of this project, the need to have significant management input and the value to be delivered on completion, it was decided that the board would maintain close oversight of the investment and implementation of business information systems. The board received three presentations on the topic, two of which were attended by KPMG, which provided independent programme assurance on the implementation. The Chief Financial Officer has also kept me regularly informed on the achievement of key milestones.
• Plan and conduct the tender of the external audit.	Pages 108 and 109

2018/19

- Monitor and support the external audit transition.
- Given the significant impact of precious metal (both customer and owned metal) held by the company on working capital, the committee will receive further presentations on how management will oversee this, including a 'teach-in' for the Non-Executive Directors.
- As the group's new business information systems are deployed, the committee will pay particular attention to the associated control processes.
- Given the substantial increase in planned capital expenditure, the committee will review the control framework around the significant areas of spend.

The Audit Committee Report was approved by the Board of Directors on 30th May 2018 and signed on its behalf by:

Alan Ferguson
Chairman of the Audit Committee

Remuneration Report

Our role is to ensure that Johnson Matthey's remuneration arrangements align with shareholders' interests, reward directors for performance and are well managed in line with good governance.

Chris Mottershead
Chairman of the Remuneration Committee

Introduction

As Chairman of the Remuneration Committee, I am pleased to present our report for the year ended 31st March 2018. This is my first report as Chairman of the committee following Colin Matthews stepping down from the board last year. It is intended to explain the key matters considered by the committee during the last 12 months and to set out the matters we expect to consider over the coming year.

We submitted our latest Remuneration Policy to shareholders at our 2017 Annual General Meeting (AGM), and appreciated the high level of support we received (92.3% in favour). We also value the continuing constructive dialogue we have had with a number of our shareholders and representatives of institutional investors.

This Annual Report on Remuneration sets out how we applied the Remuneration Policy in 2017/18 and how we intend to apply it in the forthcoming year.

Our approach to remuneration

The overall objective of Johnson Matthey is to deliver sustained superior shareholder value using our world class science and our competitive strengths, contributing to a cleaner, healthier world. The remuneration strategy focuses on: motivating our talent to achieve the company's strategic objectives; to deliver on customer commitments; to inspire employees; and to drive value for our shareholders through long term success and growth. This long term focus is supported by our Remuneration Policy, which includes an incentive structure that is purposefully weighted towards long term performance and includes shareholding guidelines for Executive Directors at, or above, 200% of salary. Our remuneration strategy is also designed to be competitive in the various markets in which we operate and compete for talent.

Incentive plan outcomes

During the year Johnson Matthey delivered strong sales growth and continued to successfully implement the board's strategy through: growing our Clean Air Sector; expanding the pipeline in our Health Sector; making targeted investments in our Efficient Natural Resources Sector; and developing our Battery Materials business for future growth.

Overall, in terms of the performance against the annual bonus targets we set for 2017/18, we achieved growth in underlying profit before tax and reduced the average working capital days during the year, which resulted in bonuses becoming payable at 69.19% of the maximum for Robert MacLeod and Anna Manz and 68.67% of the maximum for John Walker.

In the context of a challenging external environment, and the company's overall performance during the year, the committee considered the level of annual bonus payout appropriate.

The long term incentive awards granted on 1st August 2015 will lapse on the third anniversary of their grant following compound annual growth in underlying earnings per share (EPS) of 5.1% over the three year period to 31st March 2018, which fell below the threshold target of 6% compound annual growth.

Salary review

The company's general approach to senior executive salaries is to consider the delivery and experience of an individual in the context of comparable rates of pay in similar sized organisations. Executives are considered for an increase set at the typical rate of increase applied to the wider workforce in their geographical location.

Reflecting this principle, and taking into account performance and time in role, both Robert MacLeod and John Walker received an increase on 1st April 2018 of 2.5%. Anna Manz was awarded an increase of 5% effective from 1st April 2018 to reflect her strong performance in her relatively new role, against comparable rates of pay in similar sized organisations. The committee now considers her pay to be set at the appropriate rate and expects that future increase will be in line with those typically awarded to other UK employees.

Incentive plan targets

During the year the committee assessed both the current choice of performance metrics and the level of challenge within the incentive plan targets. The committee's review considered the specific business targets / metrics included in the one and three-year business plans along with the degree of stretch contained within them.

With regard to the annual bonus plan, the committee concluded that given the company's current clearly identified strategic objectives it would be appropriate to recognise these through the introduction of a weighting of 20% to non-financial objectives within the short term incentive plan for 2018/19. These non-financial objectives will be specific and focus on deliverables to support our strategy relating to science, customers, operations and people. Delivery against these objectives will also be underpinned by achieving a satisfactory health and safety record over the year. The remainder of the bonus will be based on financial metrics relating to profit and working capital, and the targets set with reference to the challenging internal plans approved by the board.

Our long term variable reward continues to be tied to growth as measured by increases in underlying EPS. The long term incentive plan will remain subject to a challenging range of growth targets that measure how successful we are in delivering on our growth strategy, underpinned by achieving an acceptable return on invested capital (ROIC).

The Remuneration Committee is actively engaged in monitoring performance and continuing to ensure that the level of challenge within our short and long term incentive plans remains appropriate. In addition, in determining outcomes, the committee also considers the precise numerical results and the character of the results themselves, including the manner in which they are achieved.

Board changes

After seven years as Chairman, Tim Stevenson will be stepping down as Chairman at our 2018 AGM. It was announced in April 2018 that Patrick Thomas will be appointed as Non-Executive Director and Chairman Designate on 1st June 2018. On his appointment to the board Mr Thomas' remuneration was set in line with our standard policy for Non-Executive Directors and, on becoming Chairman, he will be paid an annual Chairman fee of £360,000, which is subject to review in April each year. Subject to shareholder approval, Patrick Thomas will become Chairman with effect from the close of the 2018 AGM.

Other reviews

Following the completion of our triennial review of executive remuneration, the Remuneration Committee reviewed the services provided by its remuneration advisors, New Bridge Street. This review resulted in a change and the appointment of Korn Ferry Hay Group as new advisors. Korn Ferry Hay Group is a member of the Remuneration Consultants Group and adheres to its Code of Conduct.

An independent evaluation of the Remuneration Committee's performance over the year was conducted by Manchester Square Partners LLP and formed part of a wider board evaluation discussion led by the Chairman. The Remuneration Committee was considered to have operated effectively during the year.

Group employee considerations

During the year we reviewed the company's new global grading arrangements for employees below the board together with the new annual and long term incentive plans associated with each new grading level. This new grading structure will help the business manage its talent and enable more structured career pathways, while new incentive levels help support our remuneration strategy to provide competitive remuneration in the various markets in which we operate and compete for talent.

In addition, we reviewed the pay levels of employees below the board, particularly in relation to the UK gender pay gap. Our UK gender pay gap is 9.2%. This is lower than the UK national average of 18.1%. Our gender pay gap is driven by female under-representation and also issues that are evident in the wider economy including a lower number of women occupying science, technology and engineering roles. While it will take some time for there to be meaningful change and tackle the root causes of our gender imbalance, the company is fully committed to ensuring a truly inclusive culture that supports diversity and has already a number of programmes and actions in place to improve our gender balance.

The year ahead

Looking ahead to the next 12 months, we will monitor the appropriateness of the performance conditions attached to our annual and long term incentive plans and their alignment to the evolving external governance landscape. The Remuneration Committee is also currently considering the changes to the UK Corporate Governance Code that are expected to come into effect from 1st January 2019 and wider regulatory changes, with a view to taking the necessary steps to ensure we continue to take due account of best practice expectations and regulatory requirements.

2018 Annual General Meeting

I ask you to support our 2017/18 Annual Report on Remuneration at our forthcoming AGM on 26th July 2018. We believe that our policy is simple, transparent and effective, strongly supporting our business strategy. We welcome an open dialogue with our shareholders and I will be available at the meeting to answer any questions about the work of the Remuneration Committee.

Chris Mottershead
Chairman of the Remuneration Committee

Remuneration overview

Remuneration Policy

The table below sets out the Remuneration Policy for the 2018/19 financial year. Further details are set out in the Directors' Remuneration Policy and the Annual Report on Remuneration.

Remuneration element	Remuneration structure
Base salary	Current salaries as follows: • Robert MacLeod – £818,000 (2017/18 £798,000) • Anna Manz – £515,000 (2017/18 £490,000) • John Walker – £468,250 (2017/18 £456,850) The 2018/19 salaries shown above include a salary increase effective from 1st April 2018 of 2.5% for Robert MacLeod and John Walker and 5% for Anna Manz.
Benefits	Medical, life and income protection insurance, medical assessments, a company car (or equivalent), matching shares under the all employee share incentive plan and assistance with tax advice and tax compliance services where appropriate.
Pension contribution	25% of salary cash supplement in lieu of pension.
Annual bonus	180% of salary for Chief Executive and 150% of salary for other Executive Directors. The bonus for 2018/19 will be substantially based on key financial measures (80% of maximum opportunity), including underlying profit before tax (PBT) and working capital performance. It will also include an element attributable to non-financial strategic objectives (20% of maximum opportunity) focusing on our strategy relating to science, customers, operations and people. 50% of any bonus earned is deferred in shares for three years.
Long term incentive	200% of salary for the Chief Executive and 175% of salary for other Executive Directors. Awards vest subject to achieving challenging EPS growth targets (with a ROIC underpin). Targets for unvested awards require 4% to 10% p.a. underlying EPS growth for 15% to 100% vesting. Performance is measured over three years with awards vesting in equal tranches over three, four and five years.
Shareholding guidelines	250% of salary for the Chief Executive and 200% of salary for other Executive Directors. 50% of the shares (net of tax) vesting under the incentive schemes must be retained until the guideline holding has been achieved.

2017/18 outcomes

The table below sets out the remuneration outcomes for the Executive Directors for 2017/18.

£'000	Salary	Benefits	Annual bonus[1]	Long term incentive	Pension	**Total**
Robert MacLeod	798	21	994	–	200	**2,013**
Anna Manz	490	16	509	–	123	**1,138**
John Walker	457	22	470	–	114	**1,063**

[1] In accordance with the rules of the plan, 50% of the bonus payable is awarded as shares and deferred for three years.

Annual bonuses for Robert MacLeod and Anna Manz were based on the underlying profit before tax and working capital of the group and paid out at 69.19% of the maximum. The bonus for John Walker was based on the underlying profit before tax and working capital of the group plus underlying operating profit of the Clean Air Sector and paid out at 68.67% of the maximum. 50% of the bonus paid to the Executive Directors was paid in shares and deferred for three years.

The long term incentive plan awards were based on underlying EPS performance to 31st March 2018 and failed to meet the minimum threshold vesting performance requirements.

Directors' Remuneration Policy

Below we publish the Remuneration Policy table, which includes the elements of directors' remuneration. For each element we describe its purpose and its link to strategy, how it works, the opportunity, boundaries and performance measures and any clawback or withholding conditions which may apply. This Remuneration Policy was subject to a shareholder vote at the 2017 AGM, where shareholders voted 92.3% in favour, and applies to all remuneration for the financial year commencing 1st April 2017 onwards.

Remuneration Policy table

Purpose and link to strategy	Operation (and changes if appropriate) of the element	Potential value of element and performance measures
Base salary Base salary is the basic pay for doing the job. Its purpose is to provide a fair and competitive level of base pay to attract and retain individuals of the calibre required to lead the business.	Base salaries will be reviewed annually and any changes normally take effect from 1st April each year. In determining salaries and salary increases, the Remuneration Committee will take account of the performance of the individual director against a broad set of parameters including financial, environmental, social and governance issues. The Remuneration Committee will further take into account the length of time in post and the level of salary increases awarded to the wider Johnson Matthey workforce. Salaries across the group are benchmarked against a comparator group of similarly sized companies within the FTSE, with a comparable international presence and geographic spread and operating in relevant industry sectors. New appointments or promotions will be paid at a level reflecting the Executive Director's level of experience in the particular role and experience at board level. New or promoted Executive Directors may receive higher pay increases than typical for the group over a period of time following their appointment as their pay trends toward an appropriate level for their role.	**Maximum opportunity** No salary increase will be awarded which results in a base salary which exceeds the competitive market range. Details of the current salaries for the Executive Directors are shown in the Annual Report on Remuneration on page 129.

Purpose and link to strategy	Operation (and changes if appropriate) of the element	Potential value of element and performance measures
Annual incentive The annual bonus provides a strong incentive aligned to strategy in the short term. The annual bonus allows the board to ensure that the company's plans are properly reflected in stretching but achievable annual budgets. The annual bonus plays a key part in the motivation and retention of Executive Directors, one of the key requirements for long term growth. Bonus deferral as well as malus and clawback provisions ensure that longer term considerations are properly taken into account in the pursuit of annual targets.	The Remuneration Committee sets annual bonus performance measures and targets for each new award cycle. At the end of the year, the Remuneration Committee determines the extent to which these have been achieved. The Remuneration Committee retains the discretion to reduce any bonus award if, in its opinion, the underlying financial performance of the company has not been satisfactory in the circumstances. **Deferral** Of any bonus paid, 50% is paid in cash and the remaining 50% is deferred into shares for a three year period as an award under the deferred bonus plan. No further performance conditions apply to awards under the deferred bonus plan. Dividends that accrue on the deferred shares during the vesting period will be paid in either cash and / or shares at the time of vesting. **Malus and clawback** The cash and deferred elements of the bonus are subject to malus and clawback provisions such that they can be forfeited or recouped in part or in full in the event of a misstatement of results, error in the calculation or misconduct by the individual. **Adjustments** The Remuneration Committee retains discretion to change the performance targets if there is a significant or material event which causes the committee to believe the original targets are no longer appropriate (e.g. to reflect material acquisitions or disposals). The Remuneration Committee also retains discretion to amend the level of annual bonuses determined by the performance condition to seek to ensure that the incentive structure for Executive Directors does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour. For example, reducing or eliminating bonuses where the company has suffered reputational damage or where other aspects of performance have been unacceptable. The Remuneration Committee retains the ability to increase bonus awards from the formulaic outcome where there is identifiable and exceptional performance by the Executive Director. Bonus payments in such circumstances would remain within the maximum bonus opportunity and shareholders would be fully informed of the justification.	**Performance measures** Bonuses are based on the achievement of demanding financial and, where appropriate, non-financial targets. The Remuneration Committee may use different performances and weightings for each performance cycle as appropriate to take into account the strategic needs of the business. However, a substantial proportion will be based on key financial measures, including budgeted underlying profit before tax (PBT). The budget is set on a robust bottom up process to achieve full accountability. The target budgeted underlying PBT is retrospectively published in the immediately following Annual Report on Remuneration. Details of last year's bonus awards are on page 124. The performance period for annual bonus purposes matches the financial year (1st April to 31st March). **Maximum opportunity and vesting thresholds** Chief Executive – 180% of base salary. Other Executive Directors – 150% of base salary. Threshold vesting will result in a bonus of 15% of maximum opportunity. On target performance will result in 50% payment of the maximum opportunity.

Purpose and link to strategy	Operation (and changes if appropriate) of the element	Potential value of element and performance measures
Long term incentive The Performance Share Plan (PSP) is a long term incentive plan designed to ensure that executives take decisions in the interest of the longer term success of the group. Having a measure that looks at profitable growth over the longer term ensures that the interests of executives are aligned with shareholder wishes for long term value.	Shares may be awarded each year and are subject to performance conditions over a three year performance period. Subject to performance conditions being met, the shares will vest in equal instalments on the third, fourth and fifth anniversary of the date of award. The performance targets are set by the Remuneration Committee based on internal and external growth forecasts to ensure they remain appropriate and aligned with shareholder expectations. The awards are granted in accordance with the rules of the plan approved by shareholders. The maximum award level is 200% of base salary. Awards may be granted in the form of conditional shares, nil or nominal cost options or cash (where the awards cannot be settled in shares). Dividends that accrue between the third and fifth anniversary of the award date will be paid in either cash and / or shares at the time of vesting. **Malus and clawback** Long term incentive plan awards granted since 2014 are subject to malus and clawback provisions that can apply in the case of a misstatement of results, error in the calculation or misconduct by the individual. **Adjustments** The Remuneration Committee has power to adjust the vesting level of an award based on the underlying performance of the company. The Remuneration Committee may adjust the performance measure to reflect material changes (e.g. significant acquisitions or disposals, share consolidation, share buy-backs or special dividends). Any such change would be fully explained to shareholders.	**Performance measures** PSP vesting is currently based on the compound annual growth rate (CAGR) of underlying EPS over a three year performance period, subject to a discretionary ROIC underpin. However, the Remuneration Committee retains discretion to amend the targets and the performance measures for future awards as appropriate to reflect the business strategy. Wherever possible, the views of major shareholders will be sought when it is proposed to make any substantive changes to the performance measures. The prospective targets and measures for the year commencing 1st April 2017 are shown on page 125.
Benefits To provide a market aligned benefits package. The purpose of any benefit is to align with normal market practices and to remove certain day to day concerns from Executive Directors to allow them to concentrate on the task in hand.	Benefits include medical, life and income protection insurance, medical assessments, company sick pay, and a company car (or equivalent). Other appropriate benefits may also be provided from time to time at the discretion of the Remuneration Committee. Directors' and officers' liability insurance is maintained for all directors. Directors who are required to move for a business reason may, where appropriate, also be provided with benefits such as relocation benefits (e.g. the provision of accommodation, transport or medical insurance away from their country of residence) and schooling for dependents. The company may pay the tax on these benefits. Directors may be assisted with tax advice and tax compliance services. The company will reimburse all reasonable expenses (including any tax thereon) which the Executive Director is authorised to incur whilst carrying out executive duties.	Benefits are not generally expected to be a significant part of the remuneration package in financial terms and are there to support the director in his or her performance in the role. In general benefits will be restricted to the typical level in the relevant market for an Executive Director. Car benefits will not exceed a total of £25,000 per annum. The cost of medical insurance for an individual Executive Director and dependents will not exceed £15,000 per annum. Company sick pay is 52 weeks' full pay.

Purpose and link to strategy	Operation (and changes if appropriate) of the element	Potential value of element and performance measures
Pension Provides for post-retirement remuneration, ensures that the total package is competitive and aids retention.	All Executive Directors will be paid a cash supplement in lieu of membership in a pension scheme.	The maximum supplement is 25% of base salary.
All employee share plan Encourages share ownership.	Executive Directors are entitled to participate in the company's all employee share incentive plan under which regular monthly share purchases are made and matched with the award of company shares, subject to retention conditions. Executive Directors would also be entitled to participate in any other all employee arrangements that may be established by the company on the same terms as all other employees.	Executive Directors are entitled to participate up to the same limits in force from time to time for all employees.
Shareholding requirements To encourage Executive Directors to build a shareholding in the company and ensure the interests of management are aligned with those of shareholders.	Executive Directors are expected to build up a shareholding in the company over a reasonable period of time. Shares that count towards achieving these guidelines include: all shares beneficially owned by an Executive Director or a person connected to the executive as recognised by the Remuneration Committee; deferred bonus shares and long term incentive awards which are no longer subject to performance conditions but have not yet vested. Executive Directors are expected to retain at least 50% of the net (after tax) vested shares that are released under the long term PSP and deferred bonus plans until the required levels of shareholding are achieved. Executive Directors are not required to make personal share purchases should awards not meet the performance conditions and so a newly appointed director may take longer to reach the expected level, depending on the company's performance against targets over the period.	The minimum shareholding requirement is as follows: Chief Executive – 250% of base salary. Other Executive Directors – 200% of base salary. There is no requirement for Non-Executive Directors to hold shares but they are encouraged to acquire a holding over time.
Non-Executive Director fees Attracts, retains and motivates Non-Executive Directors with the required knowledge and experience.	Non-Executive Director fees are determined by the board. The Non-Executive Directors exclude themselves from such discussions. The fees for the Chairman are determined by the Remuneration Committee taking into account the views of the Chief Executive. The Chairman excludes himself from such discussions. Non-Executive Directors are paid a base fee each year with an additional fee for each committee chairmanship or additional role held. Non-Executive Director fees are reviewed every year. Any increase will take into account the market rate for the relevant positions within a comparator group of similarly sized companies with a comparable international presence and geographic spread and operating in relevant industry sectors, the experience of the individuals and the expected time commitment of the role. In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment. The company will also reimburse the Chairman and Non-Executive Directors for all reasonable expenses (including any tax thereon) incurred whilst carrying out duties for the company.	Details of the current fee levels for the Chairman and Non-Executive Directors are set out in the Annual Report on Remuneration on page 129. The fee levels are set subject to the maximum limits set out in the Articles of Association.

Selection of Performance Targets

Annual incentive	Financial performance targets under the annual bonus plan are set by the Remuneration Committee with reference to the prior year and to the budgets and business plans for the coming year, ensuring the levels to achieve threshold, target or maximum payout are appropriately challenging. The performance targets for 2018/19 are substantially based on financial measures (80% of maximum opportunity) including budgeted underlying PBT and working capital to ensure that there is strong attention paid to delivery of current operational plans and operational efficiency. In addition, an element of the bonus is attributable to the achievement of strategic objectives (20% of maximum opportunity) focusing on our strategy relating to science, customers, operations and people. Commercial sensitivity precludes the advance publication of the actual bonus targets but these targets will be retrospectively published in the Annual Report on Remuneration for 2018/19.
Long term incentive	EPS targets under the PSP are set to reflect the company's longer term growth objectives at a level where the maximum represents genuine outperformance. Underlying EPS is considered a simple and clear measure of absolute growth in line with the company's strategy. It is also a key objective of the company to achieve earnings growth only in the context of a satisfactory performance on ROIC. Accordingly, the Remuneration Committee makes an assessment of the group's ROIC over the performance period to ensure underlying EPS growth has been achieved with ROIC in line with the group's planned expectations.

Group employee considerations

The Remuneration Committee considers the directors' remuneration in the context of the wider employee population and is kept regularly updated on pay and conditions across the group. The company has not consulted directly with employees with respect to directors' remuneration. Increases in base salary for directors will take into account the level of salary increases granted to all employees within the group.

The general principle for remuneration in Johnson Matthey is to pay a competitive package of pay and benefits in all markets and at all job levels in order to attract and retain high quality and diverse employees. The proportion of variable pay increases with progression through management levels with the highest proportion of variable pay at Executive Director level, as defined by the Remuneration Policy.

The key elements of variable pay cascade down through the next tiers of senior management with appropriate reductions in opportunity levels based on seniority. The group's senior executives plus senior and middle managers (1,300 employees) participate in the annual bonus plan (with performance conditions similar to those described in the Remuneration Policy). In addition, the group's senior executives and certain senior management participate in the long term PSP in line with the same EPS based performance conditions. Executive Directors are subject to vesting in three tranches on their long term incentive plan awards, and Executive Directors, members of the Group Management Committee and senior management are subject to deferral of annual bonus. Certain senior management also participate in a long term Restricted Share Plan (RSP) which has no performance conditions attached. No Executive Director is eligible to participate in this RSP.

There are also a number of country and business dependent arrangements under which bonuses may be paid to the entire business workforce where performance conditions associated with profitability are met.

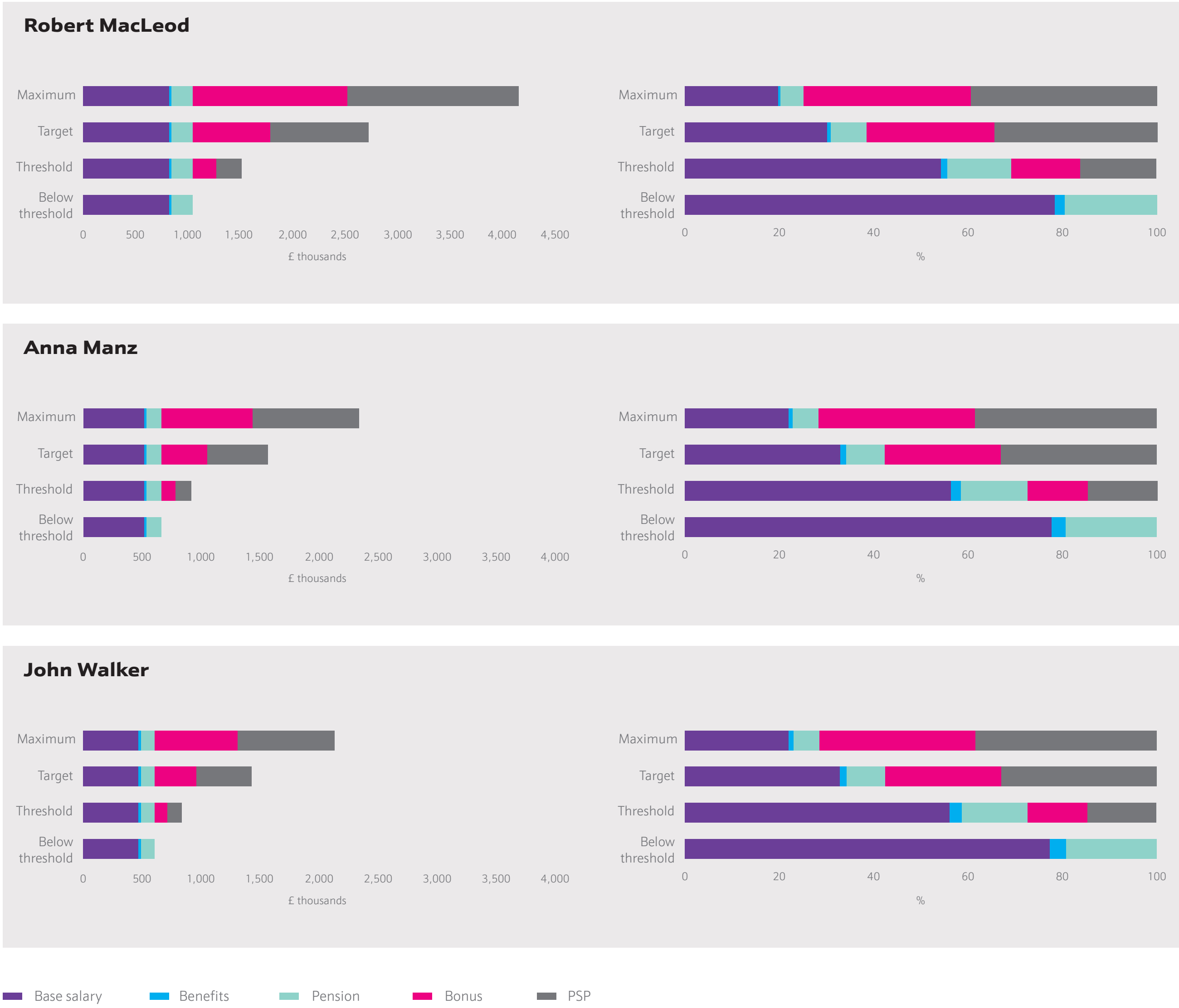
Johnson Matthey operates a number of pension arrangements around the world, relevant to the local conditions and arrangements.

The key element of remuneration for those below senior management grades is base salary and Johnson Matthey's policy is to ensure that base salaries are fair and competitive in the local markets. General pay increases take into account local salary norms, local inflation and business conditions.

Remuneration scenarios

Below is an illustration of the potential future remuneration that could be received by each Executive Director for the year commencing 1st April 2018, both in absolute terms and as a proportion of the total package under different performance scenarios. The value of the PSP is based on the award that will be granted in August 2018.

Value of package | **Composition of package**



Approach to recruitment remuneration

The recruitment policy provides an appropriate framework within which to attract individuals of the required calibre to lead a company of Johnson Matthey's size, scale and complexity. The Remuneration Committee determines the remuneration package for any appointment to an Executive Director position, either from within or outside Johnson Matthey.

The following table sets out the various components which would be considered for inclusion in the remuneration package for the appointment of an Executive Director and the approach to be adopted by the Remuneration Committee in respect of each component.

Area	Policy and operation
Overall	The policy of the board is to recruit the best candidate possible for any board position and to structure pay and benefits in line with the Remuneration Policy set out in this report. The ongoing structure of a new recruit's package would be the same as for existing directors, with the possible exception of an identifiable buy-out provision, as set out below.
Base salary or fees	Salary or fees will be determined by the Remuneration Committee in accordance with the principles set out in the policy table on page 114.
Benefits and pension	An Executive Director shall be eligible for benefits and pension arrangements in line with the company's policy for current Executive Directors, as set out in the policy table on pages 116 and 117. For new hires the cash supplement payable will be more aligned to that payable to other employees.
Annual incentive	The maximum level of opportunity is as set out in the policy table on page 115. The Remuneration Committee retains discretion to set different performance targets for a new externally appointed Executive Director, or adjust performance targets and measures in the case of an internal promotion, to be assessed over the remainder of the financial year. In this case any bonus payment would be made at the same time as for existing directors, and any such award would be pro-rated for the time served in the performance period.
Long term incentive	The maximum level of opportunity is as set out in the policy table on page 116. In order to achieve rapid alignment with the company's and shareholder interests, the Remuneration Committee retains discretion to grant a PSP award to a new externally appointed Executive Director on or soon after appointment if they join outside of the normal grant period.
Replacement awards	The Remuneration Committee retains discretion to grant replacement buy-out awards (in cash or shares) to a new externally appointed Executive Director to reflect the loss of awards granted by a previous employer. Where this is the case, the Remuneration Committee will seek to structure the replacement award such that overall it is on an equivalent basis to broadly replicate that foregone, using appropriate performance terms. If granted, any replacement buy-out award would not exceed the maximum set out in the rules of the 2017 Performance Share Plan Rules (350% of base salary). If the Executive Director's prior employer pays any portion of the remuneration that was anticipated to be forfeited, the replacement awards shall be reduced by an equivalent amount.
Other	The Remuneration Committee may agree that the company will meet certain mobility costs, relocation costs, including temporary living and transportation expenses, in line with the company's prevailing mobility policy for senior executives as described in the policy table on page 116.

In the case of an internal promotion to the board, the company will honour any contractual commitments made prior to the promotion.

Service contracts and policy on payment for loss of office

The following table summarises relevant key provisions of Executive Directors' service contracts and the treatment of payments on termination of employment. The full contracts of service of the Executive Directors (as well as the terms and conditions of appointment of the Non-Executive Directors) are available for inspection at the registered office of the company during normal business hours as well as prior to and during the forthcoming AGM of the company.

In exceptional circumstances, the Remuneration Committee may authorise, where it considers it to be in the best interests of the company and shareholders, entering into contractual arrangements with a departing Executive Director, for example a settlement, confidentiality, restrictive covenant or other arrangement, pursuant to which sums not set out in the following table may become payable. Full disclosure of the payments will be made in accordance with the remuneration reporting requirements.

The following table describes the contractual conditions pertaining to the contracts for Robert MacLeod, Anna Manz and John Walker and for any future Executive Director.

Summary of key provisions of executive directors' service contracts and treatment of payments on termination

	Robert MacLeod	Anna Manz	John Walker[1]
Date of service agreement	31st January 2014	25th July 2016	31st January 2014
Date of appointment as director	22nd June 2009	17th October 2016	9th October 2013
Employing company	Johnson Matthey Plc		
Contract duration	No fixed term		
Notice period	No more than 12 months' notice, with equal notice from the company and director except for directors who joined before 1st January 2017 where the director's notice period is six months and the notice period from the company is 12 months.		
Post-termination restrictions	The contracts of employment contain the following restrictions on the director for the following periods from the date of termination of employment: • non-compete – six months; • non-dealing and non-solicitation of client / customers – 12 months; • non-solicitation of suppliers and non-interference with supply chain – 12 months; and • non-solicitation of employees – 12 months.		
Summary termination – payment in lieu of notice (PILON)	The company may, in its absolute discretion, terminate the employment of the director with immediate effect by giving written notice together with payment of a sum equivalent to the director's base salary and the value of their contractual benefits as at the date such notice is given, in respect of the director's notice period, less any period of notice actually worked. The company may elect to pay the PILON in equal monthly instalments. The director is under a duty to seek alternative employment and to keep the company informed about whether they have been successful. If the director commences alternative employment, the monthly instalments shall be reduced (if appropriate to nil) by the amount of the director's gross earnings from the alternative employment. A PILON paid to a director who is a US taxpayer (John Walker) would be in equal monthly instalments.		
Termination payment – change of control	If, within one year after a change of control, the director's service agreement is terminated by the company (other than in accordance with the summary termination provisions), the company shall pay, as liquidated damages, one year's base salary, together with a sum equivalent to the value of the director's contractual benefits, as at the date of termination, less the period of any notice given by the company to the director.		
Termination – treatment of annual incentive awards	Annual bonus awards are made at the discretion of the Remuneration Committee. Employees, including Executive Directors, leaving the company's employment will receive a bonus, pro-rata to service, unless the reason for leaving is resignation or misconduct. Any bonus awarded would continue to be subject to deferral as set out in the Remuneration Policy. In relation to deferred bonus awards which have already been made, shares will be released on the normal vesting date unless one of the following circumstances applies, and subject to the discretion of the Remuneration Committee: • the participant leaves as a result of misconduct; or • the participant, prior to vesting, breaches one of the post-termination restrictions or covenants provided for their employment contract, termination agreement or similar agreement. In which case the deferred awards will lapse on cessation of employment. The Remuneration Committee has the discretion to accelerate vesting of a deferred award if appropriate to do so to reflect the circumstances of the departure. It is intended that this would only be used in the event of a departure due to ill health (or death).		
Termination – treatment of long term incentive awards	Employees, including Executive Directors, leaving the company's employment will normally lose their long term incentive awards unless they leave for a specified 'good leaver' reason, in which case their shares will be released on the normal release dates, subject to the performance condition. The Remuneration Committee has discretion to accelerate vesting, in which case the performance condition would be assessed based on available information at the time. In either case, unless the Remuneration Committee determines otherwise, the level of vesting shall be pro-rated to reflect the proportion of the performance period which has elapsed to the date of leaving. In the post-vesting deferral period, only those who leave due to misconduct will lose their shares.		
Redundancy scheme	The director is not entitled to any benefit under any redundancy payments scheme operated by the company.		
Holiday	Upon termination for any reason, directors will be entitled to payment in lieu of accrued but untaken holiday entitlement.		

1 John Walker is eligible for continuing post-retirement medical benefits provided he satisfies the conditions of this plan and retires directly from Johnson Matthey.

Chairman and Non-Executive Directors

The Chairman and each of the Non-Executive Directors have letters of appointment. The letters of appointment do not contain any contractual entitlement to a termination payment and the Non-Executive Directors can be removed in accordance with the company's Articles of Association. Directors are required to retire at each AGM and seek re-election by shareholders.

The details of the service contracts, including notice periods, contained in the letters of appointment in relation to the Non-Executive Directors who served during the year are set out in the table below. Neither the Chairman or the Non-Executive Directors has provisions in his or her letter of appointment that relate to a change of control of the company.

Non-Executive Director	Committee appointments	Date of appointment	Expiry of current term	Notice period by the individual	Notice period by the company
Tim Stevenson (Chairman)	R, N	29th March 2011	31st December 2018	6 months	6 months
Patrick Thomas[1]	R,N	1st June 2018	31st May 2021	6 months	6 months
Odile Desforges	A, R, N	1st July 2013	30th June 2019	1 month	1 month
Alan Ferguson	A, R, N	13th January 2011	13th January 2020	1 month	1 month
Jane Griffiths	A, R, N	1st January 2017	31st December 2019	1 month	1 month
Chris Mottershead	A, R, N	27th January 2015	26th January 2021	1 month	1 month
John O'Higgins	A, R, N	16th November 2017	15th November 2020	1 month	1 month

A: Audit Committee R: Remuneration Committee N: Nomination Committee

1 Patrick Thomas was appointed as a Non-Executive Director and Chairman Designate subject to shareholder approval at the 2018 AGM.

External appointments

It is the board's policy to allow Executive Directors to accept non-executive appointments provided there is no conflict of interest and that the time spent would not impinge on their work for Johnson Matthey. Details of external directorships held by Executive Directors, together with fees retained during the year are as follows:

Executive Director	Company	Role held	Fees retained £'000
Robert MacLeod	RELX PLC, RELX NV and RELX Group plc	Non-Executive Director	95
Anna Manz	ITV plc	Non-Executive Director	75

Annual Report on Remuneration

This section provides details of how the 2017 Directors' Remuneration Policy was implemented during the year and how we intend to apply the policy in the year ahead.

About the Remuneration Committee

The Remuneration Committee is a committee of the board and comprises all the independent Non-Executive Directors of the company as set out above including the group Chairman, Tim Stevenson. Details of attendance at committee meetings during the year ended 31st March 2018 is shown below.

	Committee role	Date of appointment	Meeting attendance 5th April 2017	31st May 2017	18th July 2017	16th November 2017	30th January 2018
Colin Matthews[1]	Chairman (until 15th November 2017)	4th October 2012	✓	✓	✓	–	–
Chris Mottershead	Chairman (from 16th November 2017)	27th January 2015	✓	✓	✓	✓	✓
Odile Desforges	Member	1st July 2013	✓	✓	✓	✓	✓
Alan Ferguson	Member	13th January 2011	✓	✓	✓	✓	✓
Jane Griffiths	Member	1st January 2017	✓	✓	✓	✓	✓
John O'Higgins	Member	16th November 2017	–	–	–	✓	✓
Tim Stevenson[2]	Member	29th March 2011	✓	–	✓	✓	✓

1 Colin Matthews stood down as Chairman of the Remuneration Committee and retired from the board on 15th November 2017.

2 Tim Stevenson was unable to attend one meeting due to illness.

Since the end of the year, the committee has met twice. All committee members attended both meetings.

The Remuneration Committee's terms of reference can be found in the Investors / Corporate governance section of our website and include determination on behalf of the board of fair remuneration for the Chief Executive, the other Executive Directors and the group Chairman (in which case the group Chairman does not participate). In addition, the committee receives recommendations from the Chief Executive on the remuneration of those reporting to him as well as advice from the Chief Human Resources Officer, who acts as secretary to the committee.

Advisers to the committee

In determining the remuneration structure, the committee appoints and receives advice from independent remuneration consultants on the latest developments in corporate governance and the pay and incentive arrangements prevailing in comparably sized industrial companies. Following a review of services provided to the committee, Korn Ferry Hay Group was appointed on 18th December 2017. The total fees paid to Korn Ferry Hay Group in respect of its services to the committee during the year were £18,670 plus VAT. New Bridge Street (part of Aon Hewitt Limited) provided advice to the committee in the period 1st April 2017 to 17th December 2017. The total fees paid to New Bridge Street in respect of its services to the committee during the year were £3,598 plus VAT.

Korn Ferry Hay Group also provides consultancy services to the company in relation to certain employee benefits to those below the board. Korn Ferry Hay Group is a signatory to the Remuneration Consultants Group Code of Conduct and the committee is satisfied that the advice that it receives from Korn Ferry Hay Group is objective and independent.

Herbert Smith Freehills provided advice to the company in connection with the drafting of share plan rules and directors' service contracts in accordance with the policy determined by the Remuneration Committee. This advice was charged on an hourly basis. The committee is aware that Herbert Smith Freehills is one of a number of legal firms that provide legal advice and services to the company on a range of matters.

A statement regarding the use of remuneration consultants for the year ended 31st March 2018 is available on our website in the Investors / Corporate governance section.

Remuneration for the year ended 31st March 2018

Single figure table of remuneration

The table below sets out the total remuneration and breakdown of the elements each director received in relation to the year ended 31st March 2018, together with a prior year comparative. An explanation of how the figures are calculated follows the table.

	Base salary / fees £'000		Benefits £'000		Annual incentive £'000		Long term incentive £'000		Pension £'000		Total £'000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Executive Directors												
Robert MacLeod	**798**	769	**21**	21	**994**	569	**–**	417	**200**	195	**2,013**	1,971
Anna Manz[1]	**490**	222	**16**	7	**509**	123	**–**	–	**123**	56	**1,138**	408
John Walker	**457**	442	**22**	20	**470**	273	**–**	192	**114**	110	**1,063**	1,037
Non-Executive Directors												
Tim Stevenson	**351**	343	**–**	–	**–**	–	**–**	–	**–**	–	**351**	343
Odile Desforges	**64**	63	**–**	–	**–**	–	**–**	–	**–**	–	**64**	63
Alan Ferguson	**83**	81	**–**	–	**–**	–	**–**	–	**–**	–	**83**	81
Jane Griffiths[2]	**64**	16	**–**	–	**–**	–	**–**	–	**–**	–	**64**	16
Colin Matthews[3]	**50**	73	**–**	–	**–**	–	**–**	–	**–**	–	**50**	73
Chris Mottershead	**71**	63	**–**	–	**–**	–	**–**	–	**–**	–	**71**	63
John O'Higgins[4]	**24**	–	**–**	–	**–**	–	**–**	–	**–**	–	**24**	–

1 Anna Manz was appointed to the board on 17th October 2016.

2 Jane Griffiths was appointed to the board on 1st January 2017.

3 Colin Matthews stepped down from the board on 15th November 2017.

4 John O'Higgins was appointed to the board on 16th November 2017.

Explanation of figures

Base salary / fees	Salary paid during the year to Executive Directors and fees paid during the year to Non-Executive Directors.
Benefits	All taxable benefits such as medical and life insurance, service and car allowances, matching shares under the all employee share incentive plan and assistance with tax advice and tax compliance services where appropriate.
Annual incentives	Annual bonus awarded for the year ended 31st March 2018. The figure includes any amounts deferred and awarded as shares.
Long term incentives	The 2017 figure represents the value of shares that satisfied performance conditions on 31st March 2017 and will be released on 1st August 2017, 1st August 2018 and 1st August 2019. This value is calculated using the average share price from 1st January 2017 to 31st March 2017 which was 3,100 pence. The 2018 figure represents the value of the shares that satisfied performance conditions on 31st March 2018 and will be released on 1st August 2018, 1st August 2019 and 1st August 2020. This value is calculated using the average share price from 1st January 2018 to 31st March 2018 which was 3,184 pence.
Pension	The amounts shown represent the value of the increase over the year of any defined benefit pension the Executive Director may have in the Johnson Matthey Employees Pension Scheme (JMEPS) plus any cash supplements paid in lieu of pension membership.

Variable pay – additional disclosures, including bases of calculation and outcomes

1 Annual bonus for the year ended 31st March 2018

The Executive Directors were eligible for a maximum annual bonus opportunity of 180% of base salary for the Chief Executive and 150% of base salary for the other Executive Directors. The on target bonus opportunity was set at 50% of the maximum opportunity and the threshold bonus opportunity was 15% of salary.

The performance measures and weightings for the annual bonus were as follows:

	Percentage of bonus available		
	Group underlying PBT	Clean Air underlying operating profit	Group working capital days
Chief Executive	80%	–	20%
Chief Financial Officer	80%	–	20%
Sector Chief Executive, Clean Air	55%	25%	20%

The annual targets are set when budgets are approved in early April, at the start of the new financial year. Budgets are built from the bottom up and are subject to a rigorous process of challenge before final proposals are considered by the board. Further information is used in the determination, including a consensus of industry analysts' forecasts, provided by Vara Research.

Achievement against targets for the year ended 31st March 2018 is set out in the table below:

Performance measure		Threshold	Target	Maximum	Actual[1]	Actual % of budget
Group underlying PBT[2]	£ million	458 (95% budget)	482 (100% budget)	530 (110% budget)	497	103.18
Clean Air underlying operating profit[2]	£ million	341 (95% budget)	359 (100% budget)	395 (110% budget)	369	102.49
Group working capital days (including metal[3])	days	37 (105% budget)	35 (100% budget)	32 (90% budget)	32	92.00
Group working capital days (excluding metal[3])	days	68 (105% budget)	65 (100% budget)	59 (90% budget)	62	95.08

1 All figures in the table have been rounded to the nearest whole number except the actual % of budget.

2 For 2017/18 actual performance for group underlying PBT and Clean Air underlying operating profit is measured using budget foreign exchange rates.

3 Working capital days is measured 50% against total working capital days including precious metal and 50% against working capital days excluding precious metal. This was to ensure that appropriate focus was put on metal management.

Based on performance against the above targets, bonuses for the year ended 31st March 2018 were:

	£'000	% salary
Robert MacLeod, Chief Executive	994	124.54
Anna Manz, Chief Financial Officer	509	103.79
John Walker, Sector Chief Executive, Clean Air	470	103.00

In accordance with the rules of the plan, 50% of the bonus payable is awarded as shares and deferred for three years. There are no further performance conditions attached to the deferred element.

2 Long term incentive vesting for the three year performance period ended 31st March 2018

The table below sets out the performance targets for the long term incentive awards made in August 2015 with a three year performance period which ended 31st March 2018.

Required underlying EPS performance	Proportion of award which may vest
Threshold 6% CAGR	15%
Maximum 15% CAGR	100%

The awards vest on a straight line basis between threshold and maximum. In addition to the EPS performance condition, the Remuneration Committee considers the performance of ROIC over the performance period to ensure that earnings growth is achieved in a sustainable and efficient manner.

The performance over the period was a compound annual growth in underlying EPS of 5.1% per annum and so was below the performance range.

The table below shows the vesting outcomes based on this performance.

	% of base salary awarded	Shares awarded	% of award to vest	Shares to vest	Estimated value on vesting £
Executive Directors					
Robert MacLeod	200	48,946	–	–	–
Anna Manz	–	–	–	–	–
John Walker	175	23,541	–	–	–
Former Executive Directors					
Den Jones[1]	175	11,746	–	–	–
Larry Pentz[2]	175	8,561	–	–	–

[2] Den Jones stood down from the board on 20th July 2016 and left the company on 31st July 2016. The long term incentive shares awarded to Mr Jones in August 2015 (26,412) were, on leaving, pro-rated to 11,746 based on his completed service since the start of the performance period.

[3] Larry Pentz retired from the board on 31st March 2016. The long term incentive shares awarded to Mr Pentz in August 2015 (25,685) were, on leaving, pro-rated to 8,561 based on his completed service since the start of the performance period.

3 Variable pay awarded during the year ended 31st March 2018 (Long term incentive awards subject to future performance)

In 2017/18 long term incentive awards were made to the Executive Directors in respect of the three year performance period to 31st March 2020. The table below sets out the opportunity and performance targets for these awards.

Required underlying EPS performance	Proportion of award which may vest	Chief Executive	Other Executive Director
Threshold 4% CAGR	15%	30%	26.25%
Maximum 10% CAGR	100%	200%	175%

The table below sets out the details of the actual conditional long term incentive awards made as a percentage of base salary.

	Date of grant	Award size (% of base salary)	Number of shares awarded	Face value[1] £
Robert MacLeod	1st August 2017	200	52,955	1,595,984
Anna Manz	1st August 2017	175	28,451	857,470
John Walker	1st August 2017	175	26,521	799,303

[1] Face value is calculated using the award share price of 3,013.85 pence, which is the average closing share price over the four week period commencing on 1st June 2017.

4 Prior year long term incentive awards and outcomes

The table below shows the history of long term incentive awards granted since 2009.

Year of award	Year of vesting [1]	% salary awarded to Chief Executive	% salary awarded to other Executive Directors	Threshold EPS growth target	Stretch EPS growth target	Compound annual growth in underlying EPS in the period	% of award vested
2009	2012	120	100	3%	10%	19.7%	100
2010	2013	150	120	7%	16%	20.2%	100
2011	2014	175	140	7%	16%	13.3%	75
2012	2015	175	140	7%	16%	6.07%	–
2013	2016	175	140	6%	15%	7.85%	33
2014	2017	200	175	6%	15%	7.39%	28
2015	2018	200	175	6%	12%	5.14%	–
2016	2019	200	175	4%	10%	n/a	n/a
2017	2020	200	175	4%	10%	n/a	n/a

[1] Awards from 2014 are subject to tranche vesting and so the year shown is the vesting of the first tranche.

Pension entitlements

No director is currently accruing any pension benefit in the group's pension schemes. Instead they receive an annual cash payment in lieu of pension membership equal to 25% of base salary. However, Robert MacLeod and John Walker have each accrued a pension entitlement in respect of a prior period of pensionable service in one or more of the group's pension arrangements.

Robert MacLeod ceased pensionable service in JMEPS on 31st March 2011.

John Walker joined JMEPS on 1st September 2012 and ceased pensionable service in this scheme on 9th October 2013. Prior to joining JMEPS Mr Walker was a member of the US Johnson Matthey Inc. Salaried Employees Pension Plan.

Details of the accrued pension benefits of the Executive Directors as at 31st March 2018 in the UK and US pension schemes are given below:

	Total accrued annual pension entitlement at 31st March 2018 £'000
Robert MacLeod[1]	10
Anna Manz	–
John Walker[2]	89

[1] Pension payable from age 65 based on pensionable service in the UK pension scheme up to 31st March 2011.

[2] Pension payable in respect of pensionable service in the UK and US pension schemes payable from age 65 and 62 respectively. The pension payable from the US pension scheme will be paid in local currency.

Statement of directors' shareholding

The table below shows the directors' interests in the shares of the company, together with their unvested scheme interests, as at 31st March 2018.

	Ordinary shares[1]	Subject to ongoing performance conditions[2]	Not subject to further performance conditions[3]
Executive Directors			
Robert MacLeod	39,937	154,193	33,051
Anna Manz	2,217	57,448	2,041
John Walker	16,653	75,449	18,444
Non-Executive Directors			
Tim Stevenson	4,958	–	–
Odile Desforges	1,416	–	–
Alan Ferguson	2,078	–	–
Jane Griffiths	2,671	–	–
Colin Matthews[4]	1,888	–	–
Chris Mottershead	1,868	–	–
John O'Higgins	1,500	–	–

[1] Includes shares held by the director and / or connected persons, including those in the all employee share matching plan and 401k plan. Shares in the all employee share matching plan may be subject to forfeiture in accordance with the rules of the plan.

[2] Represents unvested long term incentive shares within three years of the date of award.

[3] Represents unvested deferred bonus shares and unvested long term incentive shares between the third and fifth anniversary of award, where performance conditions have been assessed but vesting has not occurred.

[4] The figures for Colin Matthews are as at 15th November 2017 when he stepped down from the board.

Directors' interests as at 30th May 2018 were unchanged from those listed above, other than that the trustees of the all employee share matching plan have purchased a further 21 shares each for Robert MacLeod and John Walker and a further 24 shares for Anna Manz.

Executive Directors are expected to build up a shareholding in the company. The minimum shareholding requirement for the year ended 31st March 2018 was 200% of base salary for the Chief Executive and 150% of base salary for the other Executive Directors. The table below shows the extent to which the proposed minimum shareholding requirements have been satisfied:

	Shares held as at 31st March 2018 (% of base salary)[1,2]
Robert MacLeod	291%
Anna Manz[3]	28%
John Walker	245%

[1] Value of shares as a percentage of base salary is calculated using a share value of 3,184.48 pence, which was the average share price prevailing between 1st January 2018 and 31st March 2018.

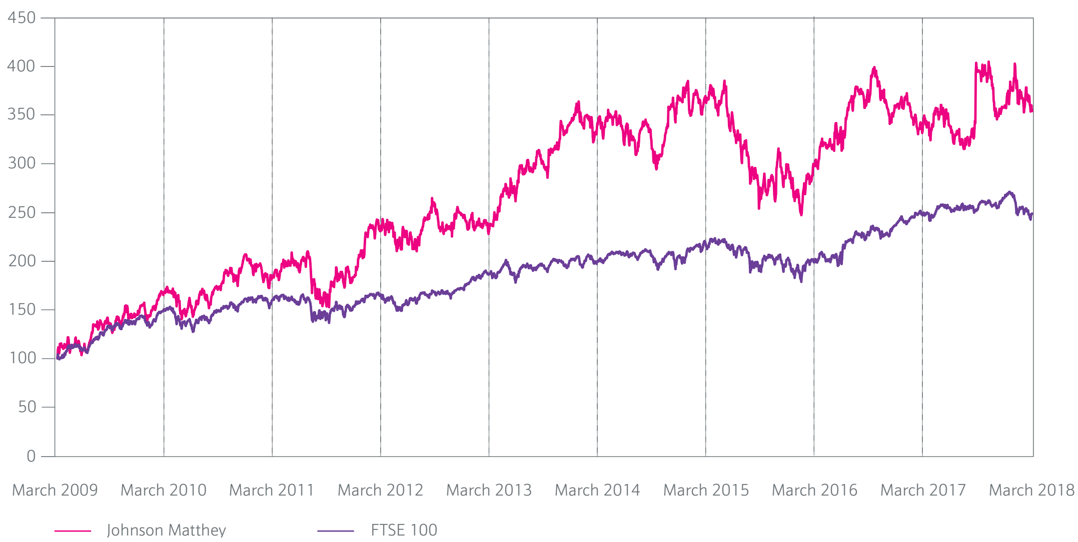
[2] The director's total shareholding for the purposes of comparing it with the minimum shareholding requirement includes shares held beneficially by the director and any connected persons (as recognised by the Remuneration Committee) together with deferred shares awarded under the annual bonus rules for which there are no further performance conditions and any unvested long term incentive shares between the third and fifth anniversary of award, where performance conditions have been assessed but vesting has not occurred.

[3] Anna Manz became an Executive Director on 17th October 2016. She will build her shareholding over time in line with the Remuneration Policy.

Performance graph and comparison to Chief Executive's remuneration

Johnson Matthey and FTSE 100 Total Shareholder Return rebased to 100

The following chart illustrates the total cumulative shareholder return of the company for the nine year period from 31st March 2009 to 31st March 2018 against the FTSE 100 as the most appropriate comparator group, rebased to 100 at 1st April 2009.



As at 31st March 2018, Johnson Matthey was ranked 79 by market capitalisation in the FTSE 100.

Historical data regarding Chief Executive's remuneration

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15[1]	2015/16[1]	2016/17	2017/18
Single total figure of remuneration	1,596	2,095	1,870	3,025	3,855	1,594	1,429	1,971	2,013
Annual incentives (% of maximum)	100	100	75	–	71	54	15	40	69
Long term incentives (% of award vesting)[2]	–	52	100	100	75	–	33	28	–

[1] The figures for 2014/15 onwards are in respect of Robert MacLeod who was appointed as Chief Executive on 5th June 2014. Prior to this, the figures shown are for the previous Chief Executive, Neil Carson.

[2] Vesting of long term incentive awards whose three year performance period ended in the financial year shown.

The above data is calculated according to the same methodology as applied in the single figure table on page 123.

Change in Chief Executive's remuneration

The table below shows how the remuneration of the Chief Executive has changed over the year ended 31st March 2018. This is then compared to a group of appropriate employees, being those based in the UK. This comparator group was used because the Remuneration Committee believes it gives a reasonable understanding of the underlying increases, based on similar annual bonus performance measures, while at the same time reducing the distortion from currency fluctuations and the distortions that would arise from including all of the many countries in which the group operates with their different economic conditions.

	Chief Executive	Comparator group [1]
Salary	An increase of 2.5%	An increase of 5.9%
Bonus	An increase of 74.8%	An increase of 54.5%
Benefits	No change in benefits policy. No change on overall costs between 2016/17 and 2017/18.	No change in benefits policy. No change on overall costs between 2016/17 and 2017/18.

1 Including promotions.

Relative spend on pay

The table below shows the absolute and relative amounts of distributions to shareholders and the total remuneration for the group for the years ended 31st March 2017 and 31st March 2018.

	Year ended 31st March 2018 £ million	Year ended 31st March 2017 £ million	% change
Payments to shareholders – special dividends	**–**	–	–
Payments to shareholders – ordinary dividends	**146**	139	5
Total remuneration (all employees) [1]	**693**	645	7

1 Excludes termination benefits.

Implementation of the Directors' Remuneration Policy for 2018/19

The table below sets out how the Remuneration Committee intends to apply the Directors' Remuneration Policy for the year ended 31st March 2019.

Salary	Salaries for the Executive Directors for 2018/19 have been increased in line with the budgeted increase for all other UK employees. The salaries of Robert MacLeod and John Walker have increased by 2.5% (to £818,000 and £468,250 respectively) and Anna Manz's salary has increased by 5% (to £515,000) to bring her in line with market and reflect her strong performance in role.
Benefits and pension	No change to policy applied in 2018/19. The maximum limit on pensions has been retained at 25%, the level paid to the current Executive Directors. However, as set out in the recruitment section of the Directors' Remuneration Policy, it is the committee's intention that pension for future hires would be aligned with the level for other senior managers.
Annual incentives	The maximum bonus opportunity for 2018/19 remains unchanged at 180% of salary for the Chief Executive and 150% of salary for the other Executive Directors. As explained in the Chairman's introductory letter, a 20% weighting to non-financial objectives has been introduced to the 2018/19 bonuses. The remainder of the bonus will be based on underlying profit before tax (60%) and working capital (20%). Targets for the Chief Executive and Chief Financial Officer will be based on group performance. For the Sector Chief Executive, Clean Air, targets will be based on a mix of group and Clean Air Sector performance. The Remuneration Committee considers the forward looking targets to be commercially sensitive, but full details of the targets and performance against them will be disclosed in next year's report. As set out in the Policy Report, 50% of any bonus paid will be deferred in shares for three years and the payment of any bonus is subject to appropriate malus and clawback provisions.
Long term incentives	Award levels remain unchanged at 200% of salary for the Chief Executive and 175% of salary for the other Executive Directors. The long term Performance Share Plan awards will be based on EPS growth targets, subject to achieving a satisfactory level of return on capital employed. The EPS targets will be the same as those applying to the 2017 awards, namely 15% vesting for 4% p.a. underlying EPS growth, increasing on a straight line basis to 100% vesting for 10% p.a. underlying EPS growth or above. Awards vest in equal tranches over three, four and five years.
Chairman and Non-Executive Director fees	Fees for the Non-Executive Directors for 2018/19 have been increased by 2.5% which is broadly in line with the budgeted increase for all other UK employees. The fees for each Non-Executive Director are shown below. Tim Stevenson £360,000 Chairman Odile Desforges £65,400 Alan Ferguson £84,950 Senior Independent Director and Chairman of Audit Committee Jane Griffiths £65,400 Chris Mottershead £81,900 Chairman of Remuneration Committee John O'Higgins £65,400

Statement of shareholder voting

We monitor carefully shareholder voting on our Remuneration Policy and its implementation. We recognise the importance of ensuring that our shareholders continue to support our remuneration arrangements.

The table below shows the results of the poll taken on the resolution to receive and approve the Directors' Remuneration Policy and the Annual Report on Remuneration at the July 2017 AGM.

Resolution	Number of votes cast	For	Against	Votes withheld
Remuneration Policy	136,108,674	125,583,227 (92.3%)[1]	10,525,447 (7.7%)[1]	3,139,449
Remuneration Report	139,189,906	136,587,858 (98.1%)[1]	2,602,048 (1.9%)[1]	60,561

1 Percentage of votes cast, excluding votes withheld.

The Remuneration Committee believes that the 92.3% vote in favour of the Directors' Remuneration Policy and the 98.1% vote in favour of the Annual Report on Remuneration showed very strong shareholder support for the group's remuneration arrangements at that time.

This Remuneration Report was approved by the Board of Directors on 30th May 2018 and signed on its behalf by:

Chris Mottershead
Chairman of the Remuneration Committee

Directors' Report

for the year ended 31st March 2018

Directors

The names of the directors who held office during the year are set out on page 92.

The biographies of all the directors serving at the date of this annual report are shown on pages 84 and 85.

Indemnification of directors

Details of indemnities granted in favour of each director of the company and each director of the company's subsidiaries, which were in force during the year and which remain in force as at the date of approval of this annual report, can be found in the Corporate Governance Report on page 94.

Appointment and replacement of directors

The rules about the appointment and replacement of directors are contained in our Articles of Association, which are available on our website. These include:

- directors may be appointed by a resolution of the members or a resolution of the directors; and
- if appointed by the directors, the newly appointed director must retire at the next Annual General Meeting (AGM) and is not taken into account in determining the directors who are to retire by rotation at the meeting. At least one third of the board must retire by rotation at each AGM.

The Articles of Association may only be amended by a special resolution at a general meeting of the company.

Notwithstanding the provisions of the Articles of Association, the board has agreed that all directors will seek election or re-election at each AGM in accordance with the UK Corporate Governance Code 2016.

www.matthey.com/investors/corporate-governance

Powers of the directors

The powers of the directors are determined by the Articles of Association, UK legislation including the Companies Act 2006 (the 2006 Act) and any directions given by the company in general meeting.

The directors have been authorised by the company's Articles of Association to issue and allot ordinary shares and to make market purchases of its own shares. These powers are referred to shareholders for renewal at each AGM. Further information is set out under 'Purchase by the company of its own shares' opposite.

Directors' interests in the company's shares

The interests of persons who were directors of the company (and of their connected persons) at 31st March 2018 in the issued shares of the company (or in related derivatives or other financial instruments), which have been notified to the company in accordance with the Market Abuse Regulation, are set out in the Remuneration Report on page 126. The Remuneration Report also sets out details of any changes in those interests between 31st March 2018 and 30th May 2018.

Directors' interests in contracts

Other than service contracts, no director had any interest in any material contract with any group company at any time during the year. There were no contracts of significance (as defined in the Financial Conduct Authority's Listing Rules) during the year to which any group undertaking was a party and in which a director of the company is or was materially interested.

Dividends

The interim dividend of 21.75 pence per share (2017: 20.5 pence) was paid in February 2018. The directors recommend a final dividend of 58.25 pence per share in respect of the year (2017: 54.5 pence), making a total for the year of 80.0 pence per share (2017: 75.0 pence), payable on 7th August 2018 to shareholders on the register at the close of business on 8th June 2018.

Other than as referred to under 'Employee share schemes' on page 132, during the year there were no arrangements under which a shareholder has waived or agreed to waive any dividends nor any agreement by a shareholder to waive future dividends.

Dividend payments and DRIP

Dividends can be paid directly into shareholders' bank accounts. A Dividend Reinvestment Plan is also available. This allows shareholders to purchase additional shares in Johnson Matthey with their dividend payment. Further information and a mandate can be obtained from our registrar, Equiniti, whose details are set out on page 207 and on our website.

Share capital

Capital structure

As at 31st March 2018, the issued share capital of the company was 193,533,430 ordinary shares of $110\frac{49}{53}$ pence each (excluding treasury shares) and 5,407,176 treasury shares. There were no purchases, sales or transfers of treasury shares during the year.

Share allotments

There were no share allotments during the year.

Purchase by the company of its own shares

At the 2017 AGM shareholders authorised the company to make market purchases of up to 19,353,343 ordinary shares of $110\frac{49}{53}$ pence each, representing 10% of the issued share capital of the company (excluding treasury shares). Any shares so purchased by the company may be cancelled or held as treasury shares. This authority will cease at the date of the 2018 AGM.

During the year and up until the date of approval of this annual report, the company did not make any purchases of its own shares or propose to, or enter into any options or contracts to, purchase its own shares (either through the market or by an offer made to all shareholders or otherwise), nor did the company acquire any of its own shares other than by purchase.

Rights and obligations attaching to shares

The rights and obligations attaching to the ordinary shares in Johnson Matthey are set out in the Articles of Association.

As at 31st March 2018 and as at the date of approval of this annual report, except as referred to below, there were no restrictions on the transfer of ordinary shares in the company, no limitations on the holding of securities and no requirements to obtain the approval of the company, or of other holders of securities in the company, for a transfer of securities.

The directors may, in certain circumstances, refuse to register the transfer of a share in certificated form which is not fully paid up, where the instrument of transfer does not comply with the requirements of the company's Articles of Association, or if entitled under the Uncertificated Securities Regulations 2001.

Also as at 31st March 2018 and as at the date of approval of this annual report:

- no person held securities in the company carrying any special rights with regard to control of the company;
- there were no restrictions on voting rights (including any limitations on voting rights of holders of a given percentage or number of votes or deadlines for exercising voting rights) except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid;
- there were no arrangements by which, with the company's cooperation, financial rights carried by shares in the company are held by a person other than the holder of the shares; and
- there were no agreements known to the company between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Nominees, financial assistance and liens

During the year:

- no shares in the company were acquired by the company's nominee, or by a person with financial assistance from the company, in either case where the company has a beneficial interest in the shares (and no person acquired shares in the company in any previous financial year in its capacity as the company's nominee or with financial assistance from the company); and
- the company did not obtain or hold a lien or other charge over its own shares.

Allotment of securities for cash and placing of equity securities

During the year the company has not allotted, nor has any major subsidiary undertaking of the company (broadly an undertaking that represents at least 25% of the group's aggregate gross assets or profit) allotted, equity securities for cash. During the year the company has not participated in any placing of equity securities.

Listing of the company's shares

Johnson Matthey's shares have a Premium Listing on the London Stock Exchange and trade as part of the FTSE 100 index under the symbol JMAT.

American Depositary Receipt programme

Johnson Matthey has a sponsored Level 1 American Depositary Receipt (ADR) programme which BNY Mellon administers and for which it acts as Depositary. Each ADR represents two ordinary shares of the company. The ADRs trade on the US over-the-counter market under the symbol JMPLY. When dividends are paid to shareholders, the Depositary converts such dividends into US dollars, net of fees and expenses, and distributes the net amount to ADR holders. Contact details for BNY Mellon are set out on page 207.

Employee share schemes

At 31st March 2018, 4,460 current and former employees were shareholders in the company through the group's employee share schemes. Through these schemes, current and former employees held 2,599,390 ordinary shares (1.34% of issued share capital, excluding treasury shares as at 31st March 2018). Also as at 31st March 2018, 1,807,792 ordinary shares had been awarded but had not yet vested under the company's long term incentive plan to 1,269 current and former employees.

Shares acquired by employees through the company's employee share schemes rank equally with the other shares in issue and have no special rights. Voting rights in respect of shares held through the company's employee share schemes are not exercisable directly by employees. However, employees can direct the trustee of the schemes to exercise voting rights on their behalf. The trustee of the company's employee share ownership trust (ESOT) has waived its right to dividends on shares held by the ESOT which have not yet vested unconditionally to employees.

Interests in voting rights

The following information has been disclosed to the company under the FCA's Disclosure and Transparency Rules (DTR 5) in respect of notifiable interests in the voting rights in the company's issued share capital:

	Nature of holding	Total voting rights [1]	% of total voting rights [2]
As at 31st March 2018:			
Ameriprise Financial Inc.	Direct	84,408	0.04%
	Indirect	9,727,409	5.03%
BlackRock, Inc.	Indirect	20,181,149	9.85%
	Financial Instrument (CFD)	209,763	0.10%
Standard Life Investments (Holdings) Limited	Indirect	10,829,249	5.60%

1 Total voting rights attaching to the issued ordinary share capital of the company (excluding treasury shares) at the time of disclosure to the company.

2 % of total voting rights at the date of disclosure to the company.

Other than as stated above, as far as the company is aware, there is no person with a significant direct or indirect holding of securities in the company. The information provided above was correct at the date of notification. However, it should be noted that these holdings are likely to have changed since the company was notified. Notification of any change is not required until the next notifiable threshold is crossed.

Contracts with controlling shareholders

During the year there were no contracts of significance (as defined in the FCA's Listing Rules) between any group undertaking and a controlling shareholder and no contracts for the provision of services to any group undertaking by a controlling shareholder.

Change of control

As at 31st March 2018 and as at the date of approval of this annual report, there were no significant agreements to which the company or any subsidiary was or is a party that take effect, alter or terminate on a change of control of the company, whether following a takeover bid or otherwise.

However, the company and its subsidiaries were, as at 31st March 2018 and as at the date of approval of this annual report, party to a number of commercial agreements that may allow the counterparties to alter or terminate the agreements on a change of control of the company following a takeover bid. Other than the matters referred to below, these are not deemed by the company to be significant in terms of their potential effect on the group as a whole.

The group has a number of loan notes and borrowing facilities which may require prepayment of principal and payment of accrued interest and breakage costs if there is change of control of the company. The group has also entered into a series of financial instruments to hedge its currency, interest rate and metal price exposures which provide for termination or alteration if a change of control of the company materially weakens the creditworthiness of the group.

The Executive Directors' service contracts each contain a provision to the effect that if the contract is terminated by the company within one year after a change of control of the company, the company will pay to the director as liquidated damages an amount equivalent to one year's gross base salary and other contractual benefits less the period of any notice given by the company to the director.

The rules of the company's employee share schemes set out the consequences of a change of control of the company on participants' rights under the schemes. Generally such rights will vest and become exercisable on a change of control subject to the satisfaction of relevant performance conditions. As at 31st March 2018 and as at the date of approval of this annual report, there were no other agreements between the company or any subsidiary and its or their directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Branches

The company and its subsidiaries have established branches in a number of different countries in which they operate.

Political donations and expenditure

It is the group's policy not to make political donations or to incur political expenditure. During the year, there were no political donations made to any EU or non-EU political party, EU or non-EU political organisation or to any EU or non-EU independent election candidate. During the year, no EU or non-EU political expenditure was incurred.

Information set out in the Strategic Report

In accordance with section 414C(11) of the 2006 Act, the directors have chosen to set out in the Strategic Report the following information required to be included in the Directors' Report:

- **Employee involvement**
  A description of the action taken by the company during the year relating to employee involvement.

Pages 52 to 57

- **Employment of disabled persons**
  Information on the company's policy applied during the year relating to the recruitment, employment, training, career development and promotion of disabled employees.

Page 53

- **Research and development activities**
  An indication of the activities of the group in the field of research and development.

Pages 25 to 31

- **Likely future developments**
  An indication on likely future developments in our business.

Pages 12 and 65 to 69

- **Greenhouse gas emissions**
  Disclosures relating to greenhouse gas emissions.

Pages 39, 40 and 45

- **Use of financial instruments**
  Information on the group's financial risk management objectives and policies, its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk and its use of financial instruments.

Pages 174 to 180

Disclosures required by Listing Rule 9.8.4R

Disclosures required by the FCA's Listing Rule 9.8.4R, can be found on the following pages:

Information required	Sub-section of Listing Rule 9.8.4R	Page reference
1. Capitalised interest	(1)	Page 168
2. Publication of unaudited financial information	(2)	Not applicable
3. Details of long term incentive schemes established to specifically recruit or retain a director	(4)	Not applicable
4. Waiver of emoluments by a director	(5) (6)	Not applicable
5. Allotments of equity securities for cash	(7) (8)	Page 132
6. Participation in a placing of equity securities	(9)	Not applicable
7. Contracts of significance	(10)	Not applicable
8. Contracts for the provisions of services by a controlling shareholder	(11)	Not applicable
9. Dividend waiver	(12) (13)	Pages 131 to 132
10. Agreements with controlling shareholder	(14)	Not applicable

Important events since 31st March 2018

There have been no important events affecting the company or any subsidiary since 31st March 2018.

2018 Annual General Meeting

Our 2018 AGM will be held at 11.00 am on Thursday 26th July 2018 at The Institute of Civil Engineering, One Great George Street, Westminster, London SW1P 3AA.

The notice of the 2018 AGM, together with an explanation of the resolutions to be considered at the meeting, is set out in a separate circular to shareholders. This circular is published on our website.

Auditor and disclosure of information

KPMG LLP will sign the 2018 Annual Report and Accounts and then retire as external auditors. Following a comprehensive tender, described in full on pages 108 and 109, PricewaterhouseCoopers LLP will be recommended for appointment as the company's external auditors at the AGM on 26th July 2018.

So far as each person serving as a director of the company is aware, at the date this Directors' Report was approved by the board there is no relevant audit information (that is, information needed by the auditor in connection with preparing its report) of which the company's auditor is unaware. Each such director confirms that he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Management report

The Strategic Report and the Directors' Report together include the 'management report' for the purposes of the FCA's Disclosure and Transparency Rules (DTR 4.1.8R).

The Directors' Report was approved by the board on 30th May 2018 and is signed on its behalf by:

Simon Farrant
Company Secretary

Responsibility of Directors

Statement of directors' responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the annual report and the group and parent company accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company accounts for each financial year. Under company law they are required to prepare the group accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and other applicable law and have elected to prepare the parent company accounts on the same basis.

Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the Annual Report and Accounts

Each of the directors as at the date of the Annual Report and Accounts, whose names and functions are set out below:

- Tim Stevenson, Chairman
- Robert MacLeod, Chief Executive
- Anna Manz, Chief Financial Officer
- Odile Desforges, Non-Executive Director
- Alan Ferguson, Non-Executive Director
- Jane Griffiths, Non-Executive Director
- Chris Mottershead, Non-Executive Director
- John O'Higgins, Non-Executive Director
- John Walker, Executive Director

states that to the best of his or her knowledge:

- the group and parent company accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report (which comprises the Strategic Report and the Directors' Report) includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the board on 30th May 2018 and is signed on its behalf by:

Tim Stevenson
Chairman